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The Housing Market in the Russian Federation

Privatization and Its Implications for Market Development

Alla K. Guzanova

Although the financial standing of most Russian households has deteriorated recently, a small but growing number of Russians would take long-term loans to purchase or build housing — if they could. Household housing strategies demonstrate a clear trend to change.



Summary findings

Guzanova reviews sociological data on privatization and the development of a housing market in Russia through 1996. Using data from urban surveys largely unknown outside Russia, she also considers demand for housing and household mobility in Russia.

Since early 1997 the Russian government has increasingly focused on housing reform. Current policy calls for a reduction (in stages) of housing subsidies (for which both owners and tenants of privatized apartments are eligible), with the goal of 100 percent cost recovery by 2003. But household incomes are not expected to rise commensurately, so housing's share of the household budget is likely to grow for most Russians.

By the end of 1996 about 55 percent of Russian housing was privately owned. The rate of privatization peaked in Moscow in 1993 and has since abated considerably, essentially coming to a halt in 1996. The pattern was the same in smaller cities, but with a later starting date. Not surprisingly, high-quality apartments in city centers have much higher rates of privatization than lower-quality housing some distance from the center. Also affecting the decision to privatize are demographic characteristics of the occupants and household incomes, values, and education levels.

Privatization has produced a far-from-uniform class of owners. The two groups most likely to have privatized their apartments — pensioners and the relatively well-off — have quite different effects on the housing market. Pensioners — the larger group — are generally not inclined to move and thus exert a negative effect on housing mobility. The well-off — a much smaller group — can be expected to participate actively in the housing market.

There has been some movement toward a more efficient allocation of housing. Because of economic forces, part of the mover households moved from their original apartments to apartments that were somehow inferior. Moreover, the housing market allows poorer households to find housing more in keeping with their ability and willingness to pay for it.

Many renters in Russia have chosen not to privatize their apartments, influenced largely by the sense of "occupation rights" inherited from the former Soviet Union. Many Russians have little incentive to privatize their housing, but data from Moscow and two smaller cities indicate that market ideas about searching for housing are beginning to penetrate the Russian public's mentality.

This paper — a product of the Poverty Reduction and Economic Management Sector Unit, Europe and Central Asia — is part of a larger effort in the region to study housing reforms in Russia. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Sandra Graig, room H12-095, telephone 202-473-3160, fax 202-477-0288, Internet address sgraig@worldbank.org. March 1998. (42 pages)

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**The Housing Market in the Russian Federation:
Privatization and its Implications for Market Development**

Alla K. Guzanova

Summary of Findings

This paper reviews sociological data on privatization and the development of a housing market in Russia through 1996. In doing so, it also considers demand for housing and household mobility in Russia, and people's attitudes to the use of market methods in making decisions about their housing. The data have been collected by means of surveys of the urban population over the last several years that are largely unknown outside of Russia.

Since early 1997, housing reform has increasingly moved into the center of the focus of the Government of Russia's reform efforts. Present policy calls for a reduction, in stages, of housing subsidies (for which both tenants and owners of privatized apartments are eligible) so that cost-recovery will be 100% by 2000. But household incomes are not expected to rise commensurably, and it is likely that housing's share of the household budget will grow for most Russians.

By the end of 1996, some 55% of the Russian housing stock was privately owned. Rates of privatization in Moscow indicate that the process peaked in 1993 and since then has abated considerably, essentially coming to a halt in 1996; the same pattern, with a latter start date, was manifested in smaller cities. Not surprisingly, high-quality apartments in city centers have much higher rates of privatization than lower-quality housing at a distance from the center. Other factors influencing the decision to privatize are the demographic characteristics of the occupants, the households' value orientations and level of education, and the household income.

On the whole, privatization has thus far produced a class of owners that is far from uniform. Two disparate demographic groups emerge as most likely to have privatized their apartments, and these two groups have essentially opposite effects on the development of the Russian housing market. Pensioners, constituting by far the largest group of privatizers, are generally not inclined to move and, thus, exert a negative effect on household mobility which, in turn, retards the advancement of the housing market in Russia. The other, much smaller group consists of the relatively well-off who can be expected to become active participants in the housing market.

Survey data indicate some movement towards a more efficient allocation of the housing stock than was the case at the beginning of transition. A certain part of the mover households moved from their original apartments to apartments that were in some respect inferior in reaction to the economic forces affecting them. The housing market allows poorer households to find housing more in keeping with their ability and willingness to pay for it.

That many renters in Russia have thus far chosen *not* to privatize their apartments is the largely the influence of the sense of "occupation rights" inherited from the Soviet Union. would make evictions. For many Russians there have been few incentives to privatize their housing. Nonetheless, data from surveys in Moscow and two smaller cities indicate that market ideas regarding housing search methods are beginning to penetrate the mentality of the Russian public.

Despite the deterioration in the financial standing of most Russian households, a small but growing number of Russians would like to get long-term loans for the purchase or construction of housing if such a possibility existed. This suggests that a properly developed mechanism of mortgage lending could make a positive difference in the Russian housing market.

CONTENTS

Introduction

1. Section 1. Housing Privatization in the Former Soviet Union: Factors and Social Effects	6
2. Section 2. The Development of the Housing Market in the Context of Public Priorities	18
Conclusions and Policy Issues	37
Annex Social Survey Background	38
References	40

List of Tables in Text

1.1. Lithuania, housing stock by form of ownership (% of total)	6
1.2. Estonia, housing stock by form of ownership (% of total)	6
1.3. Ukraine, housing stock by form of ownership (% of total)	7
1.4. Russia, housing stock by form of ownership (% of total)	7
1.5. Privatization of housing in Russia and separately in Moscow, 1990-96 (cumulative)	7
1.6. Average price of housing unit quality and location, Moscow, April, 1995 (thousand dollars)	11
1.7. Correlation between the category and location of housing and its privatization rate in Moscow (% of households that privatized before 1995)	11
1.8. Housing privatization by demographic categories (% of Moscow households that privatized before 1995)	12
1.9. Moscow households who privatized their dwellings by type of category of housing (% of total in each group)	14
1.10. Moscow households who privatized their dwellings by location of housing (% of total in each group)	14
1.11. Percentage of Moscow households who privatized their dwellings by demographic categories (% of total in each group)	14
1.12. Vladimir and Gorodets, housing stock by type of ownership, 1996 (%)	16
1.13. Vladimir and Gorodets, share of private housing by type of building, 1996	
1.14. Private ownership of housing by demographic categories in Vladimir and Gorodets, 1996 (% of owners)	17
2.1. Markets for new housing and secondary markets in Russia (price of one square meter of total floor space, fourth quarter, 1996)	20
2.2. Households' intended means of improving housing conditions, %	22
2.3. Distribution of households by demographic categories, 1996 (% total number of households in each city)	26
2.4. Moving plans, by demographic categories, 1996 (% of each group)	27
2.5. Sources of financing for future improvement of housing conditions as identified by households (1996) (% of all households)	27
2.6. Household plans to move by owner/renter status, %	31

List of Figures in Text

1.1. Types of households living in privately owned (i) and non-privatized (ii) housing, Moscow, 1994	13
1.2. Moscow households who privatized their dwellings, by deciles based on total household income	15

1.3.	Types of households living in privately owned (i) and non-privatized (ii) housing	18
2.1.	Satisfaction with housing conditions (% of household polled)	20
2.2.	Household motivations in changing housing (% of households polled)	21
2.3.	Households' plans to improve their housing conditions in the near future (% of households polled)	21
2.4.	Needs for better housing, actual plans to move and structure of demand (% of household polled)	23
2.5.	Household plans to improve housing conditions in the near future (by quantiles based on per capita provision with floor space; % of each quintile)	24
2.6.	Households' plans to improve housing conditions in the near future (by quantiles based on per capita income; % of each quintile)	25
2.7.	Share of Moscow households who plan to improve housing conditions by income (by deciles based on per capita income; % of each decile)	25
2.8.	Willingness to take a loan for the purchase of housing, by level of provision with housing (by quantiles based on per capita provision with total floor space, % of each quintile)	28
2.9.	Willingness to take a loan for the purchase of housing (by quantiles based on per capita income; % of each quintile)	28
2.10.	Willingness to take out a long-term loan for the purchase of housing, by housing plans, %	29
2.11.	Household mobility in Russia (% of households by year of move into current unit)	30
2.12.	Household mobility (% of households who changed housing in the four years of housing reform, by quantiles based on per capita income)	31
2.13.	Ratio of moves to new and previously occupied units in Moscow (% of mover households, by year)	33
2.14.	Methods of obtaining housing in the primary and secondary housing markets in Moscow (% of mover households in 1993-1995)	33
2.15.	Search methods in Moscow (by quantiles based on per capita income, % of mover household in 1993-1995)	34
2.16.	Change in mover households' living conditions in Moscow by year of the move (% of mover households in each year)	34
2.17.	Change of housing conditions when moving into new and previously occupied housing (% of mover households in 1993-1995)	35
2.18.	Change of mover household living conditions in Moscow by methods of obtaining housing (% of mover households in 1993-1995; same legend as Fig.2.17)	35
2.19.	Change in mover households' living conditions in Moscow (by quantiles based on per capita income)	36

INTRODUCTION

The central purpose of this paper is to present a systematic review of the wealth of sociological information pertaining to housing in Russia and the development of a housing market there that has been collected by means of surveys over the last several years and that is largely unknown outside of Russia. The author has been personally involved in much of the research whose results are presented here. A particularly important contribution to research in this area was made by the World Bank's Enterprise Housing Divestiture Project, which was managed by Dennis Whittle, Mari Kuraishi and Lev Freinkman, to whom particular thanks must go for stimulating discussions and organizational support.¹

The analysis presented in the paper focuses on the process of housing privatization and the development of the housing market in Russia through 1996. This new market, still in the process of formation, has emerged from the privatization of the existing housing stock, from sales of newly constructed apartments and from the reduction of housing subsidies². The findings presented here are based mainly on the results of household surveys conducted in 1992-1996 in Russian cities, and generally reflect developments in different types of urban settlements throughout Russia.³ The survey data also allow for analysis of the demand for housing and household mobility in Russia.

A brief overview of the problems of housing sector reform in post-Soviet Russia will serve as the backdrop to the detailed examination of the household survey results that constitutes the bulk of this analysis.

In the early 1990s, the Government of Russia was preoccupied with the tasks associated with macroeconomic stabilization and consequently, until recently, housing issues were not a real policy priority. To the obvious extent that housing is a basic need of the entire population, the political sensitivity of reform of the housing sector has been tremendous and has resulted in widespread resistance to the implementation of housing reforms. Budget subsidies to the housing sector still constitute almost 25% of local fiscal expenditure, or three-quarters of the cost of the provision of the housing and associated services. Regional and municipal governments have made very uneven progress in the implementation of such federal housing policy guidelines as have been enacted over the years and, as a rule, have not been capable of making real breakthroughs with institutional reform of the housing sector. This is particularly the case in such areas as the introduction of competitive maintenance firms (to break through the inefficiency associated with traditional monopoly suppliers of these services); the creation of condominium associations (to facilitate the transfer of housing ownership from municipalities ill equipped to deal with large holdings of the housing stock); and strengthening utility regulation and supervision.

Still, given the overall fragility of the Russian reform process, Russia has been able to accumulate substantial experience in reforming its housing sector⁴. Starting from late 1993, a number of key pieces of a regulatory framework have been approved, cost recovery has increased from less than 2% to about

¹ I would also like to express my gratitude to Raymond Struyk of the Urban Institute, Washington, with whom I had the good fortune to work during the past five years in the course of conducting housing surveys in Russia. I am especially grateful to my sociologist colleagues Ludmila Vafra, Alexander Temnitsky, Irina Kiseleva of the Institute of Sociology, Russian Academy of Sciences (RAS); Nadezhda Nozdrina of the Institute of Economic Forecasting, RAS; Gennady Diachenko of the Institute of Physics, RAS; Vera Gromova of InfiDemo, Vladimir; Yuri Gapienkov of Institute of Sociology, RAS, Nizhny Novgorod; and Natalia Iagodunskaya and Olga Kuzina. I would also like to thank Natalia Veligura of the Moscow Resident Mission of the World Bank, translator Natalia Belskaya and editor Michael Haney.

² The term "housing stock" as used in this paper in reference to privatization will always mean that part of housing stock that is subject to privatization unless otherwise indicated. This represents almost the entire housing stock of Russia, with the minor exception of military housing and some other forms of job-related housing provided for the tenure of employment.

³ The findings of these surveys are presented by the Foundation for Enterprise Restructuring, the Urban Institute and the World Bank. Annex 1 provides a background of the social survey work conducted by the author in Russian cities in the years from 1992-96 as well as other surveys from which this analysis draws.

⁴ Struyk, Ch. 6 (1996).

30% and, by late 1997, a number of municipalities across the country have acquired initial experience with targeting mechanisms designed to provide housing support for the most needy segments of society.

Since early 1997, housing reform has increasingly moved into the center of the GOR's reform efforts. Present policy calls for a reduction in stages of housing subsidies so that cost-recovery from all but the neediest tenants will be 100% by 2000. But this more than three-fold increase in the household contribution to financing the costs of housing over the next five years will almost certainly not be matched by a commensurate increase in household incomes. Thus, the share of housing costs in the average household budget will steadily increase. It remains to be seen whether this policy will survive the political pressures to reschedule cost-recovery increases that will undoubtedly be brought to bear on it from various quarters.

Towards a More Efficient Allocation of the Russian Housing Stock

The allocation of the housing stock that was part of the Soviet legacy to the Russian Federation was determined over decades by essentially non-market forces and was characterized by a high degree of economic inefficiency. Thus, while increased recovery of housing costs has exacerbated for many the pain of transition, to the extent that this tendency represents the removal of gross distortions in the housing sector, it has played a positive role in helping to stimulate the development of the housing market and the reallocation of the existing housing stock to a more efficient state.

An indication of just such a move towards a more efficient allocation is found in the analysis of "mover households", that is, those who moved at some point in the years under study. As is detailed in Section 2 below, survey data revealed that a certain part of the mover households moved from their original apartments to apartments that were in some respect inferior (smaller, farther from the center, in lower quality buildings, etc.) in reaction to the economic forces affecting them. They benefit by selling their superior apartments to a buyer who can pay the price, and use the money to buy their new housing. The housing market in this scenario allows poorer households to maximize their benefit from their initial allocation of housing, and to find housing more in keeping with the household's ability and willingness to pay for it.

It would be misleading, of course, to present the Russian housing market as fully developed and exhibiting the attributes of a mature housing market in a stable market economy. Indeed, one of the most important findings of this paper is that of the various demographic groups identified in the analysis, two disparate groups emerge as most likely to have privatized their apartments. Pensioners constitute by far the largest group of "privatizers" in all cities in which surveys were conducted. The other, much smaller group consists of the relatively well-off who intend to improve their housing situation by selling their apartments with the intention of acquiring better housing.

These two groups have essentially opposite effects on the development of the Russian housing market. The pensioners, older people who live on modest, fixed incomes, are not inclined to move. They are "outsiders" to any dynamic processes taking place in the formation of the housing market and they are motivated to privatize their housing primarily by the desire to bequeath it to their children or grandchildren. The dominant position of pensioners among those who have privatized their housing has a negative effect on household mobility which, despite relatively high rates of privatization, remains low in Russia. Low mobility in turn retards the advancement of the housing market in Russia. The other group—the "leaders" in the process—is younger, has a higher income by definition and can be expected to become active participants in the housing market.

Of significance in the examination of issues pertaining to privatization is a look at the reasons why many renters in Russia have thus far chosen *not* to privatize their apartments. The concept of housing "ownership" was not particularly relevant in the Soviet Union, and particularly not so in Russia since most of the country is urbanized, and most urban residents lived in apartments that were directly or indirectly owned by the state. Aside from a limited system of apartment exchanges, there was no housing

market to speak of. Instead, there was a pervasive sense of “occupation rights” that continues to play an important role in people’s attitudes towards housing in Russia. For many Russians, there are few incentives to privatize their housing.

The Structure of the Analysis

In addition to this introduction and a final section that lays out the paper’s broad conclusions and some policy prescriptions, this paper consists of two major sections devoted, in turn, to housing privatization and to developments in the housing market.

Section 1 presents an examination of housing privatization and the various factors that have influenced its course in the former Soviet Union. Although the focus of the section is on Russia, a brief, opening look at housing privatization in several other former Soviet republics provides a basis of comparison for the Russian experience. The bulk of Section 1 that deals with Russia treats first Moscow, where the most important factors influencing privatization (those related to the property itself, and to the demographic profiles of those privatizing) are examined in detail. After that, the privatization processes in two other Russian cities (Vladimir, an oblast center not far from Moscow, and Gorodets, a small town in Nizhny Novgorod oblast) are presented in a manner consistent with the analysis of the analogous processes in Moscow.

Section 2 presents findings related to the development of the housing market, a process intimately associated with but also distinct from privatization. It examines aspects of the primary and secondary markets for housing in Russia, and links the present situation in the housing market with households’ housing needs and financial capabilities. Household motivations for changing housing are examined in the context of the choice between market and non-market methods (the latter, loosely, refers to vestiges of the old Soviet system of allocation of housing), and the demographic profiles are established of those households that prefer one or the other methods to solve their housing problems. Section 2 also presents results of potential sources of household financing for the purchase of housing (again, on the basis of findings of household surveys)—for example, willingness to take out a loan—and concludes with a look at trends in household mobility in Russia.

SECTION 1. Housing Privatization In The Former Soviet Union: Factors And Social Effects

1.1. A Comparative View of the Scope of Housing Privatization

A review of the scope of housing privatization in several republics of the former Soviet Union including Russia will help set the context for the more detailed analysis of developments in Russia and will provide a basis for comparison.

In 1990-1996, the structure of the housing stock in the post-Soviet states experienced radical changes through the process of privatization. Privatization of housing started earlier and was more widespread in *Lithuania* than in any other country of the former Soviet Union. Table 1.1 gives the structure of the Lithuanian housing stock by form of ownership in 1991 and 1994:

Table 1.1. Lithuania, housing stock by form of ownership (% of total).

Type of Ownership	1991	1994
Private	39	87
State and municipal	52	8
Cooperative	9	6

Source: Zilinskiene, 1995.

Privatization took place very fast; at present most apartments are private property. In contrast to 1990, most Lithuanian dwellings are privately owned (Vine et al., 1996).

In *Estonia* privatization of apartments began in the autumn of 1993. Table 1.2 shows the distribution of Estonian housing by form of ownership.

Table 1.2. Estonia, housing stock by form of ownership (% of total).

Type of Ownership	1994*	1996**
Private	35	80
State	13	0
Municipal	42	20
Cooperative	9	0
Other	1	0

Source: Lippmaa, 1996. * = as of January, 1994; ** = as of July, 1996.

As of July 1996, the share of enterprise and municipal housing fell to 20%, while the private (including former cooperative) stock constituted 80%; in all, 66% of the housing subject to privatization was privatized. The share of privatized apartments varies depending on the region of Estonia: in some it reaches 98%, while in others it is as low as 35% (Eastern Estonia, a region with a large population of ethnic Russians, many of whom are not Estonian citizens). The enterprise housing stock has all but disappeared, having either been transferred to the municipalities or privatized by tenants.

In 1993 and 1994, selective surveys on the level of willingness to privatize were conducted. In 1993, 30% of respondents said they were not interested, while in 1994 the equivalent figure was only 12%.

According to Estonian researchers, the rental sector reform, and in particular the removal of state subsidies, promoted the process of privatization, which they generally consider to have success.

In *Latvia* between 1990 and 1994, the share of state-owned and municipal housing decreased from 64% to 54%, while the share of private dwellings rose from 22% to 39% (Tosics and Hogedus, 1996).

In *Ukraine*, housing privatization produced the following housing structure by form of ownership in 1996:

Table 1.3. Ukraine, housing stock by form of ownership (% of total).

Type of Ownership	1996*
Private	65
State	12
Municipal	17
Cooperative	6%

Source: Vaughan and Marmenko, 1996. * = July, 1996.

In *Russia* over the years of reform the structure of the housing stock by form of ownership changed quite substantially as a result of privatization and the transfer of enterprise housing to municipal ownership.

Table 1.4. Russia, housing stock by form of ownership (% of total).

Type of Ownership	1990	1996*
Private	33	55
State	42	8
Municipal	24	31
Collective	1	6

Source: Goskomstat, 1996a. * = at year's end.

The year 1991 saw the institutionalization of the transfer of housing into private ownership free of charge. In 1992, large-scale housing privatization began and housing privatization rates, shown implicitly in Table 1.5, reached their peak in 1993. In 1994, the process became less intensive and in the following years the rates of privatization slowed down noticeably.

Table 1.5. Privatization of housing in Russia and separately in Moscow, 1990-96 (cumulative).

	1990	1992	1993	1994	1995	1996
Russia:						
Number of privatized apartments, thousands	53.3	2,789	8,593	10,963	12,495	
Privatized housing stock (% of total subject to privatization)	0.2%	9%	24%	32%	36%	38%
Moscow:						
Number of privatized apartments, thousands	2.8	369	985	1,103	1,199	
Privatized housing stock (% of total subject to privatization)	0.1%	14%	32%	38%	41%	47%

Sources: *Social and Economic Situation in Russia*, 1996, No. 12, p. 198, Goskomstat of Russia; *Russian Annual Statistical Handbook*, 1996, p. 1123.

Privatization of housing was especially active in the North Caucasus region, where as of October 1, 1996, more than half of the housing stock subject to privatization was privatized: 64% in Karachai-Cherkessia, 63% in the Ingush Republic, 59% in the Kabardino-Balkar Republic, 58% in North Ossetia, and 55% in Stavropol Krai. High privatization rates were also found in some other parts of the country: in the Altai

Republic the share of privatized housing was 68%, in Kalmykia - 54%, in Altai Krai - 56%, in Omsk Oblast - 63%, and in the Agin Buryat Autonomous Region - 66%.

In contrast, less than 25% of housing passed into private ownership in the republics of Mordovia and Sakha (Yakutia), the Chuvash Republic, Arkhangelsk and Ulianovsk oblasts, Nenets, Komi-Permyak and Taimyr autonomous regions.

The analysis of privatization rates in the Russian Federation regions shows that:

- privatization was supported everywhere in Russia;
- the scope of privatization of housing varies substantially across regions;
- in most regions, privatization reached its peak in 1993, after which rates began to decline rapidly;
- by 1996, privatization ceased to be a mass-scale phenomenon.

In other former Soviet republics housing privatization can be viewed as a completed process. In the Baltic states, especially Lithuania, practically all housing is private. The Russian situation is particular in that even though 55% of the housing stock is now privately owned, a large proportion of housing (39%) remained in state or municipal ownership. Ukraine holds a place in-between Russia and the Baltic states.

1.2. Social dimensions of housing privatization in Russia

The goal of the work described here is to sum up changes in the distribution of residential property by the end of 1996. The factors and social consequences of housing privatization are examined depending on the size and category of Russian settlements on the basis of sociological surveys conducted in the past few years in Moscow (population: 8,664,000), Vladimir, an oblast administrative center (population: 340,000), and Gorodets, a small town in Nizhny Novgorod oblast (population: 33,000).

Specifically, we aim to show the component parts of the housing privatization processes that could exert an adverse or, on the contrary, beneficial effect on housing reform in Russia: the transition to market methods, housing maintenance reform, development of private utilities companies, the establishment of condominium associations, etc.

This state of affairs gives rise to a number of questions that will be examined here. What affected households' decisions to privatize and why did many households decide against privatizing their dwellings? Which categories of housing were more likely to be privatized, and which social groups were the most eager to privatize? What were their motivations?⁵

At least partial answers to these and related questions will be found in the analyses devoted to Moscow and to two provincial cities that follow below. General results are summarized here and detailed data are provided for the three cities in the sections that follow. It is hoped that the analysis of the behavioral patterns that emerged in the course of privatization will make it possible to forecast households' future plans and intentions as regards their housing situation and to connect privatization of property with prospects for the solution of the housing problem.

One of the findings common to all of the surveys presented in this paper is that in big cities, privatization had a clear "territorial" slant: most separate (as distinct from communal) apartments in the center and adjacent districts were privatized, and these were generally the best-quality and most conveniently located housing. This was determined, first, by the concentration of high-quality housing there; second, by the

⁵ While the significance of housing privatization, its scope, rates and local peculiarities have been discussed in many works on housing (Vine et al., 1996; Meyers et al., 1995), motivations behind the decision to privatize have not been considered as extensively and thoroughly. In this regard, one must pay tribute to the contribution of the Urban Institute (Struyk and Kosareva, 1994; Struyk and Daniell, 1994). Other studies have examined in great detail the attitudes of Moscow households to housing privatization in the early stages of the process (Daniell et al., 1993) and taken sociological approaches to the issue (Guzanova, 1996).

prestige of living in the center; third, by the large share of older tenants, who privatized their apartments so as to be able to bequeath them; and, fourth, by the relatively higher educational level of people living in the center.

In the past few years, as the scale of privatization has become narrower, the high-income groups have become more active than other income groups. The greatest changes in the attitude towards housing privatization occurred among the highest-income group, which indicates that privatization now has a larger role to play as a way of dealing with the housing problem and gaining access to the housing market.

On the whole, privatization has thus far produced a class of owners that is far from uniform. Half of them are households who may well be interested in a further improvement of their housing situation and who can be expected to join the housing market. The other part, pensioner households, are at the opposite end. They have low incomes, a larger part of their lives is already over, and they are unlikely ever to move from their apartments and to become actively involved in market processes. Most of them privatized their housing with just one end in view—leaving it to children or grandchildren.

A substantial share of the owners of privatized housing consists of persons who, given their low income levels, are entitled to housing subsidies. Since Russian law does not allow for discrimination on the basis of property ownership, the limited means available to the fiscal system will have to be extended to the privatized stock at the same time that the purpose of privatization was just the opposite—to alleviate the load borne by the state.

A problem also exists at the other end of the income scale. The municipalities still lease housing to a large part of the above-average income group. For this income group housing is a pressing concern that could motivate them to turn to market methods. At present higher-income households that are not satisfied with their housing conditions do not see much sense in privatization and are biding their time before exercising their right to privatize their residences. Sociological surveys (Guzanova, 1994) show that it is this category that is extremely eager to own dwellings, including expensive country houses. Their seemingly “indifferent” behavior during privatization does not mean that they are opposed to private ownership of housing; rather, under current housing policy they have practically no opportunity to obtain better dwellings. As a result, privatization cannot help them. In the meantime, under other circumstances private housing could become a springboard for the purchase of new dwellings. However, there is no clearly defined procedure that would facilitate such purchases. Mortgage credits are, for all practical purposes, non-existent. Confidence in realty companies is low. And the taxation of the sale and purchase of housing does nothing to promote the housing market (Nozdrina, 1995).

As a result, the rates of housing privatization in small towns recently exceeded those in Moscow, where the process took off earlier, the share of private housing is slightly over 40%, and privatization has not appreciably progressed in the last year. The reason is probably the fact that the housing market is out of reach for most people living in big cities: the prices are too high, and supply is too low.

The high rates of privatization of housing in smaller towns show, or so we believe, that their residents have broader opportunities to improve their housing situation (we deal with this issue in more detail in the Section 2). Residential mobility in such towns is indeed high and, in contrast to Moscow, is typical of all income groups, which indicates normal exchange of housing between poor and wealthy families. Also important are the more affordable prices (as compared to Moscow), as well as a wider choice of suitable dwellings (apartment or house).

Of note is the link between housing privatization and housing maintenance and rental reform. A typical feature of provincial towns is the presence of inconvenient housing stock (some of it municipal or enterprise-owned, and some of it privatized) with correspondingly low maintenance and utilities payments. In Gorodets, for instance, rent varies within a wide range. As housing payments rise rapidly, many households can no longer afford them. One way for the poor to solve this problem is to move to lower-quality dwellings after selling their original apartments in more desirable, more expensive locations and

purchasing new housing in less expensive areas. On the other hand, many people are quite prepared to pay for the privilege of moving to better housing. These circumstances incline both categories to privatize their housing. In Moscow, however, where rent and utilities payments bear little relation to the quality of housing, lower rent and bills are not a motive for privatization.

Due to the social heterogeneity of the owners of housing within multi-unit houses, there are very few buildings where a majority of apartments are privatized, and this promises to complicate the establishment of condominium associations. On the other hand, in low-quality buildings many residents have privatized their apartments by now. This can also produce many problems (when deciding that such a building should be razed, transferred to the category of "social" housing, etc.).

As a result of privatization, households become owners of valuable real estate which can be sold or bequeathed. From the point of view of the law, they are owners. At the same time, they do not pay property tax, which in many other countries constitutes a sizable portion of local budget revenues. Furthermore, the owners of apartments also enjoy the subsidies for housing maintenance and repairs. And if the owners belong to a low-income category, they receive housing allowances for the payment of maintenance and the utilities bills. Thus, in the present situation in Russia, apartments owners enjoy the same social protection as the tenants of state-owned or municipal housing.

1.2.1. Factors influencing housing privatization in Moscow

Before 1992, privatization of housing in Moscow was episodic. The process reached its height in 1993 and then began to decline rapidly (recall Table 1.5). In the year 1994, only 4% of the total number of apartments was privatized. By the end of 1994, half of the households surveyed in Moscow still lived in state-owned, municipal or enterprise housing.⁶

The factors that influence households' privatization decisions may be broken down into four groups, each of which will be examined in turn:

- value of the property;
- demographic characteristics of the occupants;
- households' value orientations;
- the household income.

a. *The value of the property* (here, a separate apartment or a room in a communal apartment) is determined by its market price. A very simple assumption is made: the higher the market price, the stronger the incentive to privatize. In turn, the market price of a dwelling depends on its quality and location.

Table 1.6 shows the dependence of the market price of housing on its category and location. The figures are based on realty companies' data on the characteristics and cost of apartments put up for sale in April 1995.⁷

⁶ In this examination of the factors influencing housing privatization primarily data from the third wave of the Moscow Longitudinal Household Survey (December 1994) have been used.

⁷ Using information supplied by realty companies (*Nedvizhimost'*, 1995; *Modus*, 1995), which includes qualitative characteristics and market value estimates for 1,900 Moscow apartments put up for sale in April 1995, we estimated the value of each of the 2,250 apartments covered by the sociological survey (MLHS, 1994). The December 1994 data on the household units and the April 1995 data on the housing market prices are highly comparable for purposes of the present analysis. With this end in view, we developed an iteration procedure and a computer program to identify all apartments in the realty companies' database that matched the MLHS, 1994 apartments by qualitative parameters: number of rooms, area of general and living space, category of dwelling, wall material, etc., as well as by location, which was determined by small Moscow districts. The market estimates of the value of the surveyed apartments calculated in this way were included in the survey database and were later analyzed as regular questions included in the questionnaires. This made it possible to correlate the value estimates with the social status, incomes, and demographic composition of Moscow households, as well as with the other survey questions.

Market prices are also to some extent indicative of the quality of housing in Moscow, e.g., the Stalin-era and the elite brick buildings are the most expensive, whereas the small-sized apartments of Khrushchev period and the 1970s are the cheapest. The former are high-quality, while the latter are low-quality housing. Average value and, consequently, average quality in Moscow corresponds to standard apartments with an improved layout in the new panel multistory buildings located mainly on the outskirts of the city.

Table 1.6. Average price of housing unit by quality and location, Moscow, April, 1995 (thousand dollars).

Type of Apartment	Location from Center*					Average
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
Communal apartments	65	39	33	32	30	41
Separate apartments, average	116	83	59	58	52	64
of which:						
Khrushchev-era buildings	60	49	42	43	27	42
Panel buildings (1970s design)	71	49	48	52	33	51
Brick buildings (1970s design)	80	62	51	46	33	56
Modern panel buildings	81	83	71	68	56	67
Old low-rise stock	130	69	72	72	35	85
Modern brick buildings	112	118	89	72	-	103
Stalin-era buildings	147	114	95	-	-	114
Average	105	77	57	57	51	62

Sources: The Moscow Longitudinal Household Survey, December 1994; author's estimates.

*Location: 1- city center, 2 - near the center, 3 - far from the center but not outskirts, 4 - outskirts, 5 - outside the Moscow Ring Road.

Note: The data presented in Table 1.6 and the other value estimates of Moscow apartments used in this work were obtained from the MLHS, 1994 database complemented by the market estimates made by the methods described in footnote 7.

How do the category and location of a dwelling affect privatization? Table 1.7 presents the percentage of the households who have privatized their apartments by type of apartment and its location from the center of Moscow.⁸

Table 1.7. Correlation between the category and location of housing and its privatization rate in Moscow (% of households that privatized before 1995)

Type of Apartment	Location from Center*					Average
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
Communal apartments	13	10	-	-	-	5
Separate apartments, average	65	56	40	33	34	40
of which:						
Khrushchev-era buildings	-	37	32	27	-	29
Panel buildings (1970s design)	-	49	39	32	30	36
Brick buildings (1970s design)	50	53	40	46	-	45
Modern panel buildings	-	51	44	36	34	38
Old low-rise stock	47	25	36	29	-	36
Modern brick buildings	73	74	50	43	-	63
Stalin-era buildings	77	70	50	-	-	65
Average	49	49	36	32	36	37

Source: The Moscow Longitudinal Household Survey, December 1994.

* Location: 1- city center, 2 - near the center, 3 - far from the center but not outskirts, 4 - outskirts, 5 - outside the Moscow Ring Road.

⁸ Here and below, the categories of households who privatized housing in Moscow also include the households who have recently purchased apartments.

Table 1.7 demonstrates that the type of occupation (a separate or a communal apartment) is an important factor influencing tenants' decisions to privatize. On average, about 40% of the households residing in separate apartments decided to privatize them, while only 5% of those residing in communal apartments decided to privatize their rooms. Naturally enough, as tenants may privatize free of charge only once in a lifetime, many people are reluctant to waste this right on communal housing. Furthermore, the survey findings indicate that communal dwellings are occupied not only by elderly people but also by single, divorced or separated persons who, unable to pay for better-quality housing, are often on waiting lists for new housing. Therefore, a privatized communal apartment makes no sense unless an outsider (realtor, company, the city) gets hold of the apartment and offers the tenants new, separate dwellings.

Table 1.7 also demonstrates how the quality of dwelling affects privatization. Fully 65% of the households living in high-quality buildings (Stalin-era and modern brick) have privatized their apartments. In the central part of the city, this figure rises to 75%. A substantial difference is observed in the rates of privatization of apartments in high-quality and low-quality buildings equidistant from the city center.

The closer a dwelling is to the city center, the more eager the tenants are to privatize. A **territorial trend in privatization** is obvious: 60 to 65% of the households living in separate apartments in the city center and adjacent districts have privatized their apartments. What we observe here is a cumulative effect of several factors: first, the predominantly high quality of housing; second, the prestige of an address in the center; third, a high proportion of elderly people who privatize so as to be able to bequeath housing to children or grandchildren; and, fourth, the higher educational standard of residents there (the last two factors will be discussed in greater detail below).

b. *The demographic characteristics of the occupants* also influences the willingness to privatize. As Table 1.8 demonstrates, pensioners as a group demonstrate the highest level of privatization (62-70%); childless families average 38-39%, and families with children are least likely to live in privatized housing (26-31%). The possibility of leaving housing to heirs is a major factor in pensioners' decision to privatize their apartments. And conversely, households with no such prospects display a much weaker interest. The implications of this tendency for the housing market in Russia are significant: because of the preponderance of pensioners among owners of privatized apartments, the constraints on the housing market in Russia are even greater than the natural limits that would normally be suggested by the levels of home ownership. Retired people are highly unlikely to move from their apartments (whether privatized or not), and thus, the real estate they occupy essentially drops out of the housing market for the duration of its occupation by the pensioners.

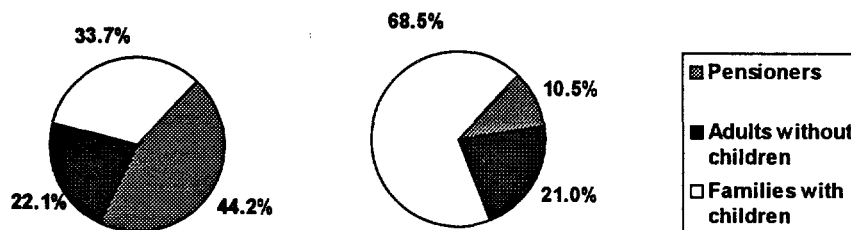
Table 1.8. Housing privatization by demographic categories
(% of Moscow households that privatized before 1995.)

Demographic category	%
Pensioners:	
single	70.3
husband and wife	62.1
Single working age people:	
childless	38.1
childless + parents	38.8
with children	28.1
with children + parents	30.8
Married working age people:	
childless	38.8
childless + parents	37.3
with children	26.3
with children + parents	27.2
Average for city	37.2

Source: The Moscow Longitudinal Household Survey, December 1994.

The highly differentiated attitude towards privatization is manifested in serious disproportions in the demographic composition of the population living in privatized and non-privatized housing (see Fig. 1.1 below). In the privatized sector, 33.7% of the dwelling space is held by pensioners, and 44.2%, by households with children. In municipal or enterprise-owned housing stock (that is, in the non-privatized sector), the share of pensioner households is comparatively low (10.5%), while the proportion of households with children is very high (68.5%). However, in the housing market, the ratio of these two categories is essentially different. Sociological surveys (Guzanova, 1994) show that families with children are more active on the market given a greater urgency of their housing problem, a better financial status, and readiness to pay for better-quality housing.

Fig. 1.1. Types of households living in privately owned (i) and non-privatized (ii) housing Moscow, 1994.



Source: The Moscow Longitudinal Household Survey, December 1994.

c. *Households' value orientations* and their willingness to acquire their own housing influence intentions vis-à-vis privatization, and these, in turn, essentially depend on the level of education attained by members of the household. The Moscow survey demonstrates that the higher the level of education, the greater the inclination to privatize one's dwelling. The privatization rate among respondents with a graduate academic degree was 53%; among those with a university education, 45%; and among respondents without higher education, 28%.

d. *Household income* is another factor influencing privatization. In the low-income group we find childless families and single pensioners, while in the high-income group there are households with children. The desire to bequeath their housing to heirs stimulated privatization rates in the low-income group that were higher than among high-income households.

On the face of it it would appear that the low-income groups were the gainers, judging by the degree to which they engaged in privatization. However, this is not so because they mainly privatized low-cost, low-quality dwellings. However, as will be shown later on (Fig. 1.2 below), over time the high-income group in Moscow appears to be becoming more involved in the process of privatization.

Recent trends in housing privatization in Moscow

In 1995, Muscovites privatized only 3% of the overall number of apartments. The fourth wave of the Moscow Longitudinal Household Survey conducted in late 1995-early 1996 showed that the reasons for privatizing and the agents involved had experienced some changes while some characteristics of the process remained unchanged, as demonstrated by Tables I.9 to I.11 which show the dynamics in privatization in Moscow between 1994 and 1996.

Table 1.9. Moscow households who privatized their dwellings by type of category of housing (% of total in each group).

Type of housing	1994	1996
Communal apartments	5.3	5.5
Separate apartments, average of which:	40	43
Old low-rise stock	36	46
Khrushchev-era buildings	29	32
Stalin-era buildings	65	66
Panel buildings (1970s design)	36	41
Brick buildings (1970s design)	45	46
Modern panel buildings	38	38
Modern brick buildings	63	65
Average for city	37	41

Source: The Moscow Longitudinal Household Survey in Dec-1994 and Jan-1996.

Table 1.10. Moscow households who privatized their dwellings by location of housing (% of total in each group).

Location	1994	1996
City center	49	59
Near the center	49	52
Far from the center but not outskirts	36	38
Outskirts	32	36
Outside the Moscow ring road	36	32
Average for city	37	41

Source: The Moscow Longitudinal Household Survey in Dec-1994 and Jan-1996.

Table 1.11. Percentage of Moscow households who privatized their dwellings by demographic categories (% of total in each group).

Demographic category	1994	1996
Pensioners:		
single	70.3	73.4
husband and wife	62.1	60.6
Single working age people:		
childless	38.1	38.7
childless + parents	38.8	45.8
with children	28.1	22.1
with children + parents	30.8	33.0
Married working age people:		
childless	38.8	33.3
childless + parents	37.3	41.5
with children	26.3	29.6
with children + parents	27.2	35.0
Average for city	37.2	40.5

Source: The Moscow Longitudinal Household Survey in Dec-1994 and Jan-1996.

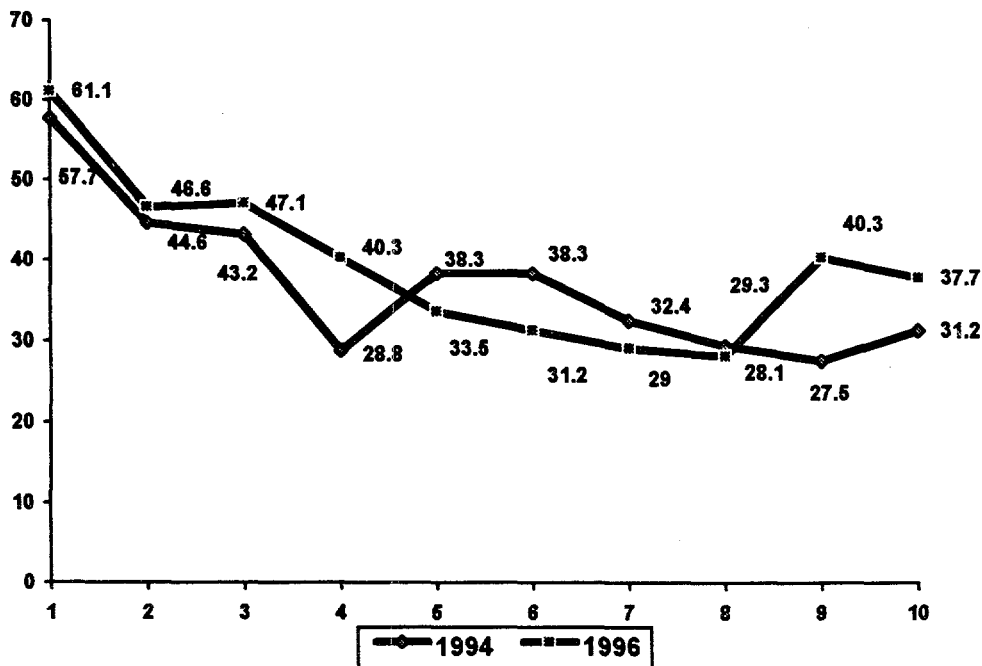
Some conclusions from an analysis of the data in Tables 1.9-1.11 follow.

- the concentration of privatized housing in the center of Moscow continued in the period under examination. This was largely determined by the development of the housing market, which in turn was driven by the consolidation of communal apartments (located almost exclusively in the center of the city) accompanied by their transition from municipal to private ownership (Table 1.10);

- old low-rise units saw the greatest increase in privatization (Table 1.9);
- tenants of standard modern panel buildings still showed no eagerness to privatize (Table 1.9);
- potentially mobile households (e.g., couples with children) displayed more interest in privatizing (Table 1.11);
- the main distinction from previous years was that the high-end income categories were now more active than the others (Fig. 1.2). The greatest changes in the attitudes towards housing privatization occurred in the 20% highest-income group. The share of apartment owners among the middle-income group fell (this can be explained, in part, by redistribution of incomes among social groups).

The trends described here have positive implications for the process of housing privatization, and consequently, for the fledgling housing market, as the entrance of younger, more mobile and wealthier families into the housing market strengthens its development. As the market develops, it in turn affects the tenants' inclination to privatize their apartments. That is, the two processes of housing privatization and the development of the housing market exert reciprocal, mutually beneficial influences on each other.

**Fig. 1.2. Moscow households who privatized their dwellings
By deciles based on total household income**



Source: The Moscow Longitudinal Household Survey in Dec-1994 and Jan-1996.

Note: 1 – lowest income decile, 10 – highest income decile

Note in the above figure that the lowest income group (decile 1) is also the group that exhibits by far the highest rates of privatization in both 1994 and 1996, which is consistent with the finding that pensioners, who generally have quite low incomes, are the demographic group most likely to have privatized their apartments.

Comparison of Moscow trends with Yaroslavl

Of considerable interest for comparison with the privatization situation in Moscow are the findings of a survey conducted in 1993 in Yaroslavl, a historical city and major industrial center with a population of 628,000.⁹ The survey revealed much the same trends as in Moscow. The rates of housing privatization varied substantially by location from the city center, and a comparison of the age of dwellers living in privatized and in separate, state-owned apartments showed that an overwhelming majority of privatizers are older tenants.

1.2.2. The privatization processes in provincial Russian towns

The findings of sociological surveys conducted in late 1996 in Vladimir, an oblast center, and in Gorodets, a small town in Nizhny Novgorod oblast, permit an analysis of the privatization process in provincial locations that is analogous to the analysis for Moscow described above.

In 1992-1993, Moscow was the national leader in the proportion of privatized/already private housing. By late 1996, the share of privately-owned housing in Vladimir caught up with that in Moscow, and the share in Gorodets exceeded the Moscow rate by 1.5 times, constituting 48% and 66% respectively (Table 1.12). This can be explained, in part, by the presence of private single-family houses there long before privatization began (in Vladimir, 6% and in Gorodets, fully one-third of the housing stock)¹⁰. At the same time, the privatization rate of the multi-unit housing stock that used to belong to the state and to enterprises also exceeded the rate in Moscow, rising to 47% in Vladimir and to 50% in Gorodets (Table 1.13). The data on the privatization rate of multi-unit housing stock reflects the role of quality and location of housing in the households' readiness to privatize.

Table 1.12. Vladimir and Gorodets, housing stock by type of ownership, 1996 (%).

Type of housing	Vladimir	Gorodets
Total privately owned	48	66
o/w: Privatized housing	42	33
o/w: Already private single-family houses	6	33
State & municipal	52	35
Total	100	100

Source: Vladimir and Gorodets Longitudinal Household Survey, December 1996.

Table 1.13. Vladimir and Gorodets, share of private housing by type of building, 1996 (% of total in each group).

Type of housing	Vladimir	Gorodets
Separate apartments, average	47	50
of which:		
Old low-rise stock	43	36
Khrushchev-era buildings	62	64
Modern brick buildings	47	50
Modern panel buildings	38	60
Old single-family private houses	100	100
Average	48	66

Source: Vladimir and Gorodets Longitudinal Household Survey, December, 1996.

In Vladimir, the quality factor proved insignificant: even in the worst dwelling category—the old low-rise apartment stock—43% was privatized. Location was more important: the rate of apartment privatization

⁹ Lehmann and Ruble (1994). The sample contained 1,430 respondents.

¹⁰ In most Russian towns, the share of such privately-owned houses is higher than in Vladimir and lower than in Gorodets.

in modern panel buildings which are usually located on the town outskirts is noticeably below the overall average.

In Gorodets, the multi-unit housing stock consists primarily of the dilapidated, old low-rise stock possessing no so-called modern conveniences (hot water and centralized gas), and the Khrushchev-era buildings which, despite their small size at least have the advantages of these modern conveniences, which are clearly highly valued (especially in comparison with the neighboring private housing stock, which has no conveniences at all¹¹). This is why the tenants of the Khrushchev-era buildings hastened to privatize their dwellings (over 60%). It should also be noted that even in the apartment stock devoid of conveniences a fairly large share of apartments was privatized (36%). This may be connected with the establishment of the housing market, which we shall examine in detail in Section 2. On the whole, it can be concluded that the quality factor is a primary one in small towns.

Table 1.14 shows the impact of the demographic factor on privatization decisions. The provinces displayed the same trends as Moscow: pensioner households are the leaders, and families with children are the least active. In small towns practically all pensioner households became the owners of their housing in the course of privatization.

Table 1.14. Private ownership of housing by demographic categories in Vladimir and Gorodets, 1996 (% of owners)

Demographic category	Vladimir	Gorodets
Pensioners:		
single	77	85
husband and wife	71	93
Single working age people:		
childless	77	60
childless + parents	58	52
with children	28	50
with children + parents	28	44
Married working age people:		
childless	71	50
childless + parents	35	63
with children	31	52
with children + parents	54	55
Average	48	66

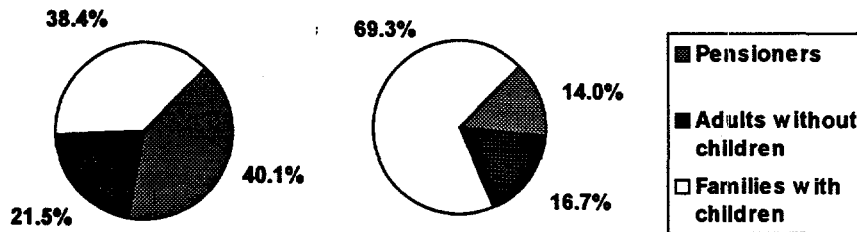
Source: Vladimir and Gorodets Longitudinal Household Survey, December 1996.

Fig. 1.3 shows the structure of the households living in privatized (including privatized apartments and privately-owned houses) and non-privatized housing in Vladimir and Gorodets. The trends are obviously the same as in Moscow.

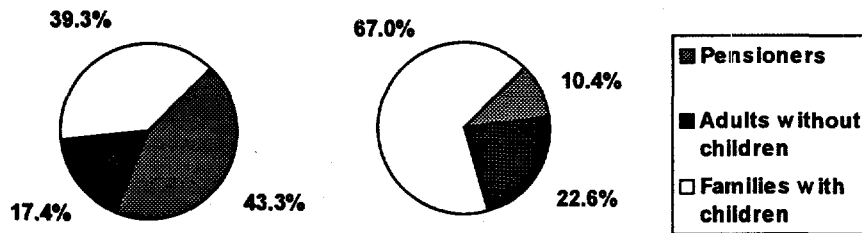
¹¹ This is probably typical of many small Russian towns, whose housing stock has a similar structure.

Fig. 1.3. Types of households living in privately owned (i) and non-privatized (ii) housing.

Vladimir, 1996



Gorodets, 1996



Source: Vladimir and Gorodets Longitudinal Household Survey, December 1996.

The impact of the household's demographic category on privatization proved so significant that it practically invalidates the other factors. For instance, apartments in the low-quality Khrushchev-era buildings were privatized quite eagerly because a large proportions of their tenants are older persons (this is true of all old buildings). The concentration of pensioner households in the middle-income groups resulted in quite high rates of privatization of the apartments occupied by such households.

SECTION 2. The Development of the Housing Market in the Context of Public Priorities

This section considers the social and economic aspects of the development of the housing market. The findings of sociological surveys of the past few years are used to trace the changes in households' attitudes to the methods of looking for housing over the period of reform. Also examined is the influence of the housing market on household residential mobility. And, finally, the availability of housing depending on

household incomes under conditions of a sharply increased income disparity and the advancement of the housing market is examined.

These issues are explored primarily by means of a comparative analysis of the findings of sociological surveys conducted in Moscow in December 1993 and in January 1996, as well as in Vladimir and Gorodets (Nizhny Novgorod oblast) in October 1994 and in December 1996. A description of the surveys can be found in Annex 1.

2.1. Foundations and environment of the development of the housing market in Russia

Housing reform in Russia did not abolish the old system of waiting lists whereby free housing was given (eventually) to people with very bad housing conditions. At the same time, Russians now have the opportunity to improve their housing conditions by *buying* housing. Sales of new and secondary housing have begun. The secondary market began to develop at a fast pace as a result of large-scale housing privatization (as stated earlier in Section 1, as of late 1996, 38% of the overall number of apartments subject to privatization were privatized, with the share of private housing in the housing stock rising to 55% from 33% before the outset of reform in 1990.¹²

The establishment of the housing market was accompanied by a number of problems. First, in the past few years commissions of new housing have slowed down considerably. Even in the decade preceding the period of reform (to say nothing of the 1960s and 1970s) the annual increase of the housing stock (in square meters of total space) was about 3%, while in 1996 - only 1%¹³. Considering that a substantial part of new housing is still free, it is not surprising that its supply in the market is not large.¹⁴

Also typical are the high prices of new apartments (1.3 times higher than in the secondary market; see Table 2.1 below), which sometimes makes it difficult to sell them. For instance, in 1996 10% less of state and municipal housing was sold than in 1995.¹⁵ The significant reduction in the volume of the construction of cooperative housing (in 1996, 26% less cooperative housing was built than in 1995¹⁶) is another factor that makes newly built housing hard to afford for many Russians.

The limited opportunities to buy housing in the primary market increase the importance of the secondary market, where households can more realistically hope to find a satisfactory apartment in a convenient place at an affordable price. According to Russian State Statistical Committee information, in the fourth quarter of 1996 secondary housing market transactions were registered in 70 regions of the Russian Federation, while the sale of new housing took place in only 51 regions.

Indeed, as the prices of one square meter of floor space for different categories of housing in Russia in Table 2.1 demonstrate, the high price levels of housing compared to the incomes of most households is one of the most problematic housing-related issues in Russia today. According to (Goskomstat, 1996a: 124), the average price of one square meter of space in the primary housing market was, in the fourth quarter of 1996, 3,310,000 rubles (\$610). The highest selling price of housing is in Moscow, 7,508,000 rubles (\$1,385) for one square meter. In Moscow a two-room apartment would cost on average \$74,682, and \$32,940 elsewhere in Russia. At the same time, in November 1996 the average monthly wage in Russia was 835,000 rubles (\$150), and the average monthly pension, 320,000 rubles (\$60). It is easy to see that the households whose incomes are confined to wages and pensions cannot afford to buy an apartment.

¹² Goskomstat, 1996a, p. 199.

¹³ Goskomstat, 1996a: 198; Goskomstat, 1996b, p. 238.

¹⁴ In Moscow in 1995, approximately 80% of newly constructed housing was still allocated on a gratis basis (Gorsky, 1996).

¹⁵ Goskomstat, 1996a, p. 198.

¹⁶ Goskomstat, 1996a, p. 47.

Table 2.1. Markets for new housing and secondary markets in Russia (price of one square meter of total floor space, fourth quarter, 1996.)

Type of Housing	Price level (thousand rubles)		
	Bottom	Top	Average
Low quality apartments secondary market	734	4,314	1,969
Standard apartments newly constructed	1,220	4,493	2,794
secondary market	679	4,319	2,166
Ratio of primary/secondary market prices	1.8	1.0	1.3
Apartments with improved planning and design newly constructed	882	6,046	2,934
secondary market	645	5,754	2,603
Ratio of primary/secondary market prices	1.4	1.0	1.1
Apartments in top-quality buildings newly constructed	1,613	11,987	4,644
secondary market	1,721	11,630	4,595
Ratio of primary/secondary market prices	0.9	1.0	1.0

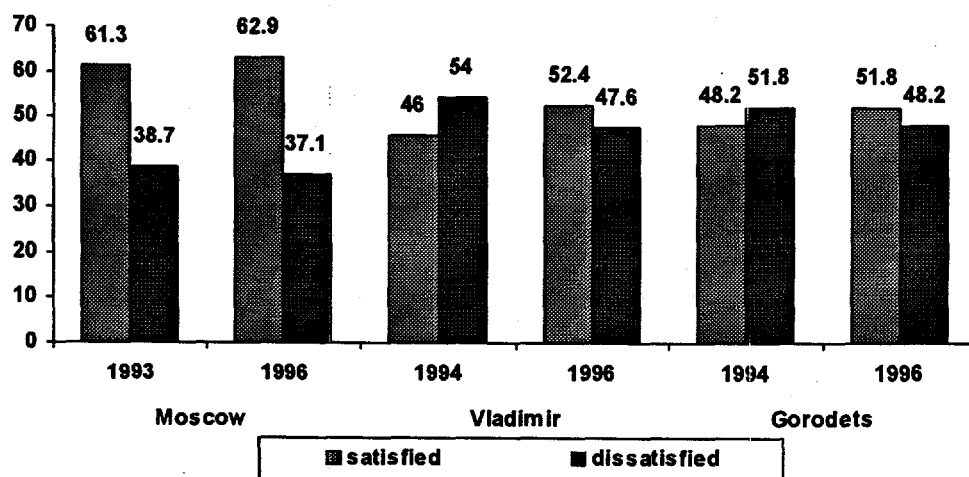
Source: Goskomstat. *Socio-economic situation in Russia*, No 12. Moscow, 1996.

These figures give an idea of the environment in which the housing market is taking shape. Without question, the very high cost of housing in Russian is an important constraint, among others, affecting Russian households' behavior as the attempt to deal with this issue.

2.2. Households' near-term plans and intentions to improve their housing conditions

2.2.1 General assessment of the housing situation

Sociological surveys indicate that households' assessments of their housing conditions have recently changed for the better (Fig. 2.1). The number of households who said they were satisfied with their housing has risen by 1.6% in Moscow, 6.4% in Vladimir and 3.6% in Gorodets. Nevertheless, 36.8, 47.6 and 48.2% respectively still considered housing to be a pressing problem.

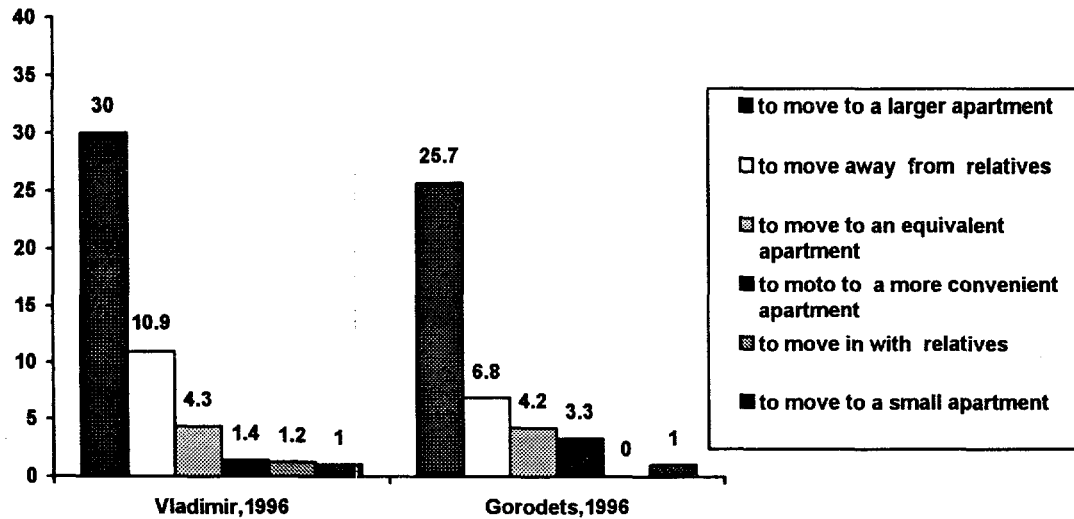
Fig. 2.1. Satisfaction With Housing Conditions (% of households polled)

Sources: Household Survey in Seven Cities, Moscow, December 1993; The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, Oct-1994 and Dec-1996.

Figure 2.2 shows households' desired improvements in their housing conditions. The most common wish is to move to a larger apartment (30% of Vladimir and 26% of Gorodets households); 11 and 7% respectively would like to exchange their apartments for two or several so as to split with relatives; 6 and 8% would like to move into more convenient housing or apartments on par with their present ones. Very few households (only 1% in each city) would consider moving into smaller or less convenient apartments (e.g., to reduce the utilities payments).

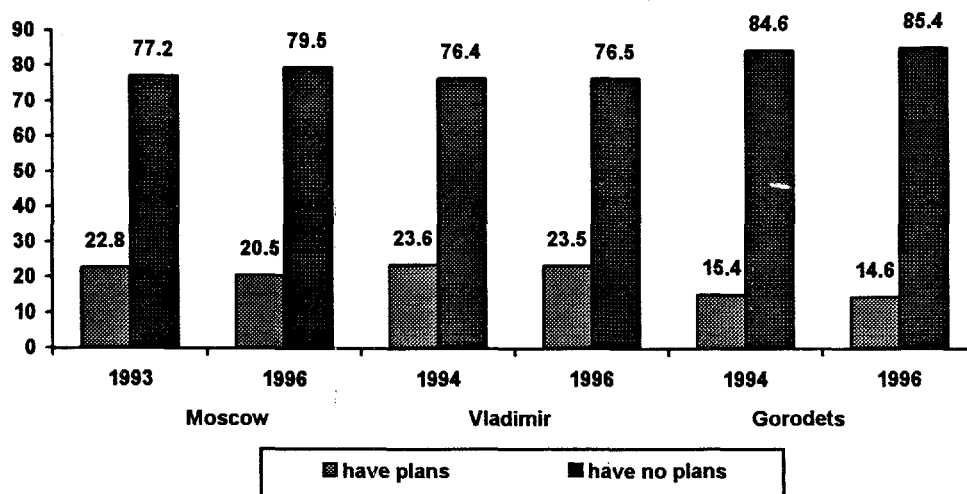
The proportion of households actually planning to improve their living conditions in the near term is 21% in Moscow, 24% in Vladimir and 15% in Gorodets (Fig. 2.3), which means that the overall picture in 1996 had not changed much from 1994.

Fig. 2.2. Household Motivations in Changing Housing (% of households polled)



Sources: Vladimir and Gorodets Longitudinal Household Survey, December 1996

Fig. 2.3. Households' plans to improve their housing conditions in the near future (% of households polled)



Sources: Household Survey in Seven Cities, Moscow, December 1993; The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Surveys, Oct-1994 and Dec-1996.

Some households (those who are on the waiting list or live in dilapidated or unsuitable housing) are counting on getting free municipal housing, while others are prepared to use their own means (by buying, building, exchanging, or renting), and some expect housing to be left to them. These intentions and expectations are reflected in Table 2.2. The ratio of market and non-market means of looking for housing in 1994 and 1996 is presented in Fig. 2.4.

Table 2.2. Households' intended means of improving housing conditions, %.

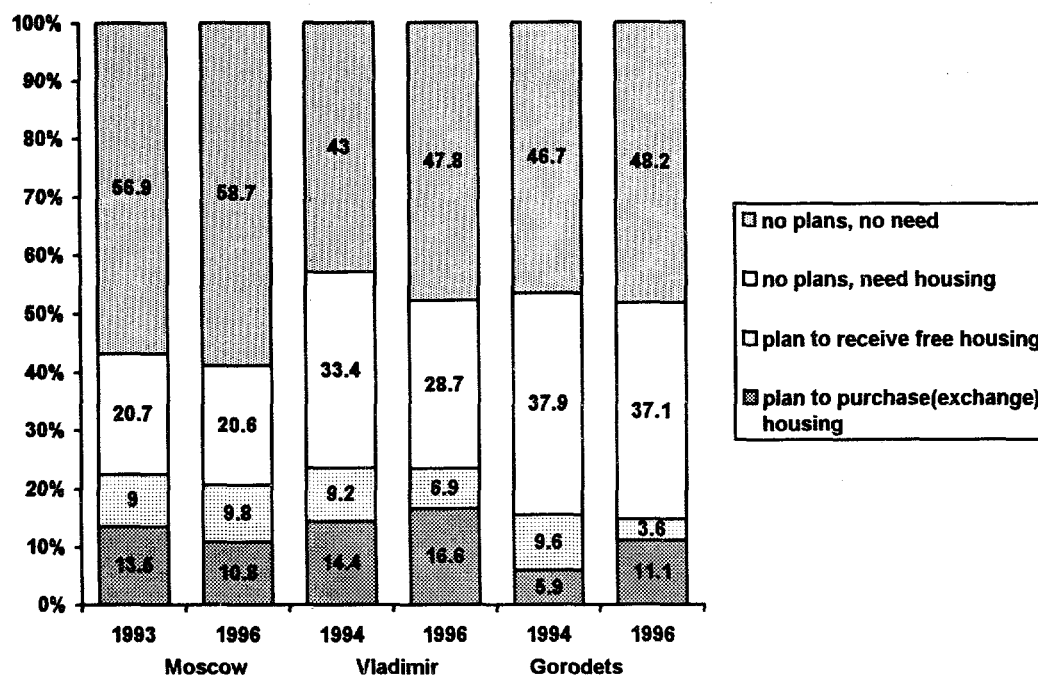
Possible answers	Moscow		Vladimir		Gorodets	
	1993	1996	1994	1996	1994	1996
Non-market means, total:	8.2	9.8	6.8	6.7	7.5	2.9
--receive through waiting list	6.6	6.3	6.8	5.9	7.5	2.6
--receive as compensation for building slated for demolition	1.6	3.5	-	0.8	-	0.3
Market means, total:	10.4	10.3	14.0	15.7	5.6	11.7
--exchange	5.7	5.8	4.6	8.9	1.0	2.9
--purchase	2.8	2.9	4.6	4.2	1.3	2.9
--build	1.3	0.9	3.8	2.4	2.6	4.9
--rent	0.1	0.1	-	0.0	-	0.3
--inherit	0.5	0.6	1.0	0.2	.7	0.7
Other, do not know	3.9	0.6	2.8	1.2	2.2	0.0
Do not have plans	77.4	79.5	76.4	76.5	84.6	85.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Household Survey in Seven Cities, Moscow, Dec. 1993; The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, Oct. 1994 and Dec. 1996.

In Moscow, the aspirations of households that stated that they had housing plans divided almost equally: 9.8% of the Muscovites still hope to receive an apartment from the state, and 10.8% are ready to try using other methods of obtaining housing. In Vladimir, the proportion of those intending to use market methods rose to 15.7% of all households, and the share of those who count on the state dropped to 6.7%; in Gorodets, these figures are 11.7 and 2.9% respectively. While in Vladimir pro-market moods have long prevailed and are merely getting stronger, in Gorodets, a small town, ideas about search methods have changed radically in favor of the housing market.¹⁷

¹⁷ Interest in the housing market was also displayed in other cities and towns (see the survey of the demand for housing in seven Russian cities; Urban Institute, 1995). For instance, in Barnaul in 1994, 14.5% of the households were planning to buy or build housing (Guzanova, 1994).

Fig. 2.4. Needs for better housing, actual plans to move and structure of demand (% households polled)



Sources: Household Survey in Seven Cities, Moscow, December 1993; The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, Oct-1994 and Dec-1996.

It is clear from the survey data presented here that market ideas regarding housing search methods are beginning to penetrate the mentality of the Russian public. In our opinion, the widely-held view that most Russian households are convinced that housing should be free and are thus opposed to the market is erroneous. The findings of surveys conducted in the mid-1980s (Kalinina and Kosareva, 1989; Guzanova, 1989; Guzanova, 1990) show that even then, many households did not mind using their own money to buy housing. They were quite prepared to pay to move into larger apartments or to join cooperatives, and this created high demand for cooperative housing. Recent studies show that as soon as the opportunity to buy and sell housing appeared, many households began to display the intention of solving their housing problems through market methods.

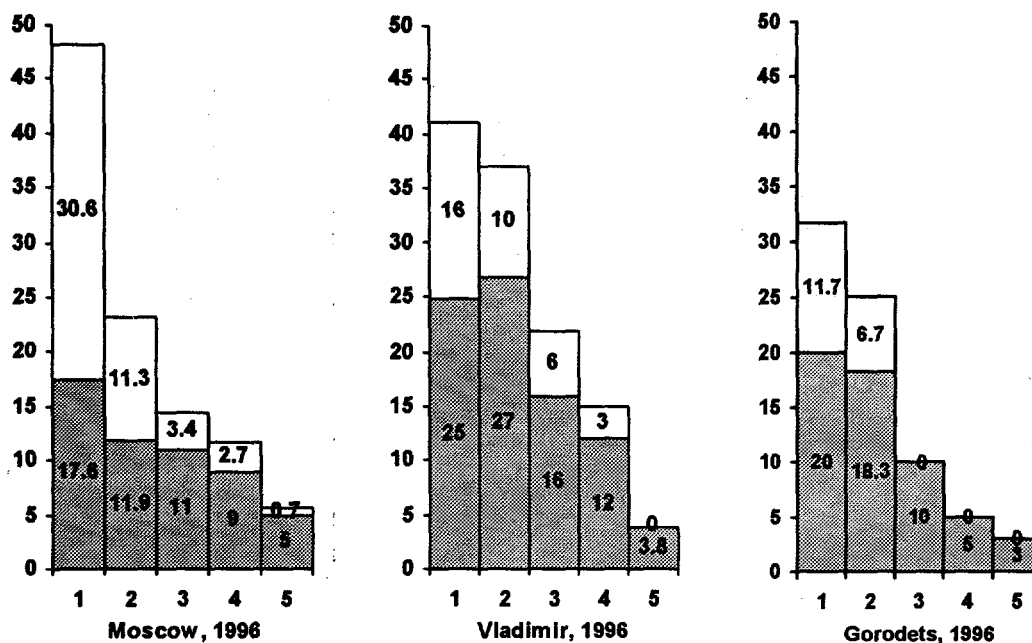
2.2.2 Factors influencing household attitudes to housing market strategies

The following factors were taken into account in the analysis of households' prospects of dealing with the housing problem: how pressing the problem is (i.e., the level of the household's provision with housing); the income level; and the demographic structure of the household.

a. Level of provision with housing

Sociological surveys commonly show that the main reason why households do not like their living conditions is the small size of their apartments. The urgency of the housing problem strongly influences households' plans. For instance, in the quintile with the lowest general space per person the share of households that have plans to improve their housing conditions in the near future reaches 48.2% in Moscow, 41% in Vladimir and 31.7% in Gorodets (Fig. 2.5).

Fig. 2.5. Household plans to improve housing conditions in the near future (by quintiles based on per capita provision with floor space; % of each quintile)



Note: 1 – lowest quintile, 5 – highest quintile

■ on a chargeable basis

□ on free-of-charge basis

Sources: The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, December 1996.

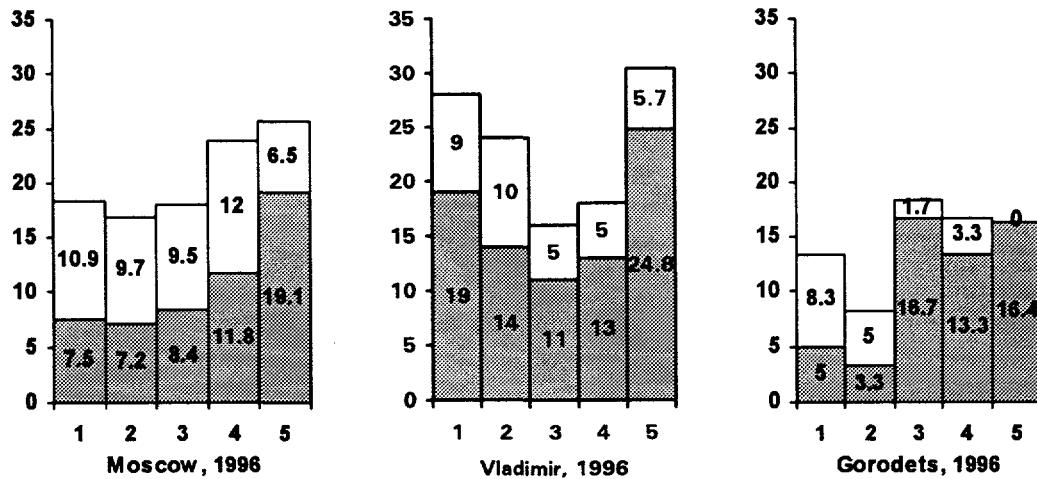
It is noteworthy that whereas in Moscow the lowest quintile, which in all cities experiences the greatest urgency in its housing needs, is clearly dominated by those who count on free housing (30.6% of persons on the waiting list as compared to 17.6% of persons favoring market methods), in the other cities and towns such hopes are less common: 20-25% of the households in this quintile are prepared to buy it on the market.

b. Household incomes

The impact of incomes on the households' market attitudes makes itself felt in all three cities, albeit with variations (Fig. 2.6).

In Moscow, which has the highest apartment prices in Russia and a considerable income disparity, the low- and middle-income households favor receipt of housing free-of-charge. Only in the highest income quintile is the proportion of households who can afford to buy an apartment significantly higher, reaching 19.1%. However, the wealthy no longer need housing quite so urgently as they used to, as is shown by the findings of a survey held in Moscow in early 1994 (Fig. 2.7). Many such people have probably already purchased apartments, as a result of which demand was largely satisfied (as will be shown below, in the past two or three years, the mobility of the high income groups was quite high). Poor households in Moscow also demonstrate less interest in obtaining housing because this group of Muscovites consists mainly of pensioner households, who do not generally have a pressing need to change their living conditions. As for middle-income households, they unanimously demonstrated increased interest in improving their living conditions.

Fig. 2.6. Households' plans to improve housing conditions in the near future (by quintiles based on per capita income; % of each quintile)

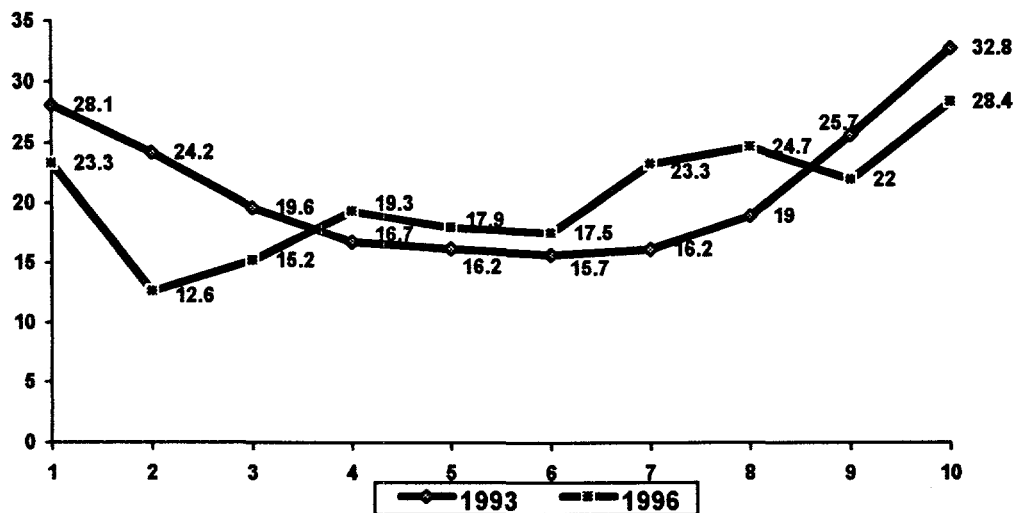


Note: 1 - lowest quintile, 5 - highest quintile



Sources: The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, December 1996.

Fig. 2.7. Share of Moscow households who plan to improve housing conditions by income (by deciles based on per capita income; % of each decile)



Note: 1 - lowest decile, 10 - highest decile

Sources: Household Survey in Seven Cities, Moscow, December 1993; The Moscow Longitudinal Household Survey, January 1996.

In Vladimir, too, high income households have more housing plans. In the top quintile, 30.5% of the households intend to get better housing, with 24.8% preferring market methods. The lowest income households are, however, not far behind: they count not so much on their wages as on other sources of income. Middle-income households are not so active. This can also be explained by the distribution of incomes in the past few years: unlike Moscow, in Vladimir the pensioners have found themselves in the middle-income category.

In Gorodets, which is a small town, 40% of the households with low incomes count mainly on getting free housing. The other 60%, whose incomes are higher, are ready to deal in the housing market. The "depression" in the second income quintile can also be explained by a high share of pensioner households.

c. Demographic profiles of households

Table 2.3 presents the distribution of households by the demographic categories that have been used elsewhere in this analysis, and Table 2.4 shows their near-term plans for changing their places of residence.

Table 2.3. Distribution of households by demographic categories, 1996
(% total number of households in each city).

Demographic category	Moscow	Vladimir	Gorodets
Pensioners:			
single	10.3	12.8	17.6
husband and wife	9.7	11.7	14.3
Single working age people:			
childless	5.3	3.4	1.6
childless with parents	9.1	7.9	7.5
with children	6.1	5.7	5.2
with children + parents	4.4	5.7	2.9
Married working age people:			
childless	4.5	5.1	5.2
with children	32.2	29.8	30.3
childless with parents	1.8	1.4	1.3
with children + parents	9.1	7.7	6.5
Other	7.6	8.7	7.5
Total	100.0	100.0	100.0

Sources: The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, December 1996.

The categories of households with the most pronounced intention to improve their living conditions are married couples with or without children who have strong reasons to want to move to larger apartments, as well as households consisting of several generations who desire to split the household or who need more space. The mobility of these households is 1.5-2 times higher than the average due to the urgency of their housing problem and their comparative prosperity. For instance, among married couples with children (about 30% of all urban households), 25.9% in Moscow, 40.4% in Vladimir and 25.8% in Gorodets are planning to move to improve their housing.

Table 2.4. Moving plans, by demographic categories, 1996 (% of each group)

Demographic category	Moscow	Vladimir	Gorodets
Pensioners:			
single	5.2	4.6	1.9
husband and wife	6.5	1.7	2.3
Single working age people:			
childless	18.5	17.6	-
childless with parents	13.7	12.5	8.7
with children	21.2	31.0	-
with children + parents	14.3	24.1	11.1
Married working age people:			
childless	41.0	23.1	18.8
childless with parents	29.3	0.0	-
with children	25.9	40.4	25.8
with children + parents	26.1	46.2	10.0
Other	28.1	13.6	30.4
Average	20.5	23.5	14.7

Sources: The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, December 1996.

At the other pole are pensioner households (20-30% of all urban households), who are largely satisfied with their housing situation. Only 2-6% of these households are planning to move in the near future. The rest (single people, one-parent families) occupy an in-between stand.

In all three cities, similar trends were identified in the effect of the household's demographic type on potential housing mobility. The type of household, which is correlated both with the level of the household's provision with housing and the household average per capita income, is a strong determining factor in the decision to purchase housing.

2.2.3 Sources of financing housing purchases

In November 1996, only 11.4% of households in Vladimir and 7.9% in Gorodets were able to specify the sources of money for the purchase of housing (Table 2.5); this is much less than the proportion of households having such plans. Surveys conducted in 1994 (Urban Institute, 1995; Guzanova, 1994) indicate that the share of such households was noticeably higher then (for instance, 27.5% in Barnaul and 19.3% in Nizhny Novgorod) and the range of sources was broader, reflecting the fact that the financial situation of many households has deteriorated in the past few years.

Table 2.5. Sources of financing for future improvement of housing conditions as identified by households (1996) (% of all households)

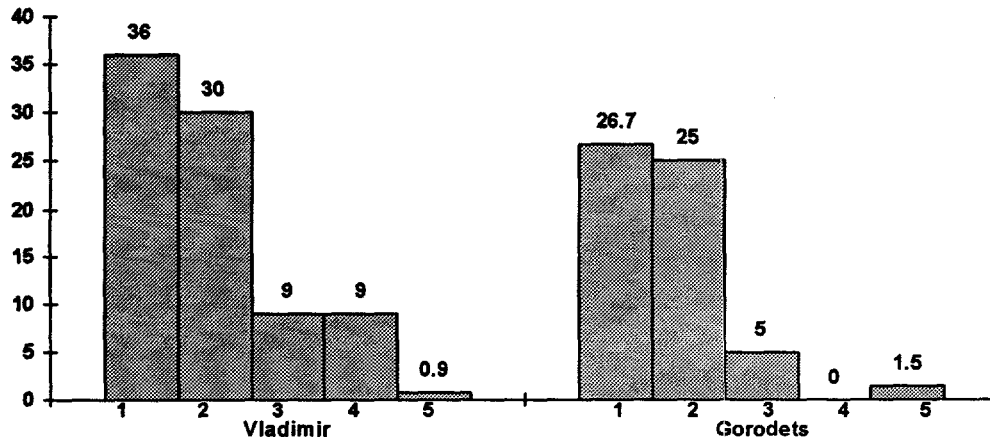
Sources	Vladimir	Gorodets
Loans	4.3	2.6
Own firm, enterprise	3.2	1.3
Sale of apartment (house)	1.6	1.3
Help from relatives	1.0	2.0
Sale of property	1.0	0.3
Savings	0.8	0.7
Other	1.6	0.7
None	36.0	32.2
No need	52.6	59.9

Source: Vladimir and Gorodets Longitudinal Household Survey, December 1996.

Despite this deterioration in household financial standing, 16.8% of Vladimir and 11.4% of Gorodets households would like to get long-term loans for the purchase or construction of housing. When the housing problem is very pressing, the proportion of such households increases sharply to reach 36% in

Vladimir and 26.7% in Gorodets (Fig. 2.8). Among married couples with children, 31.8% and 22.6% respectively would like to get a loan. The effect of the income level is demonstrated in Fig. 2.9.

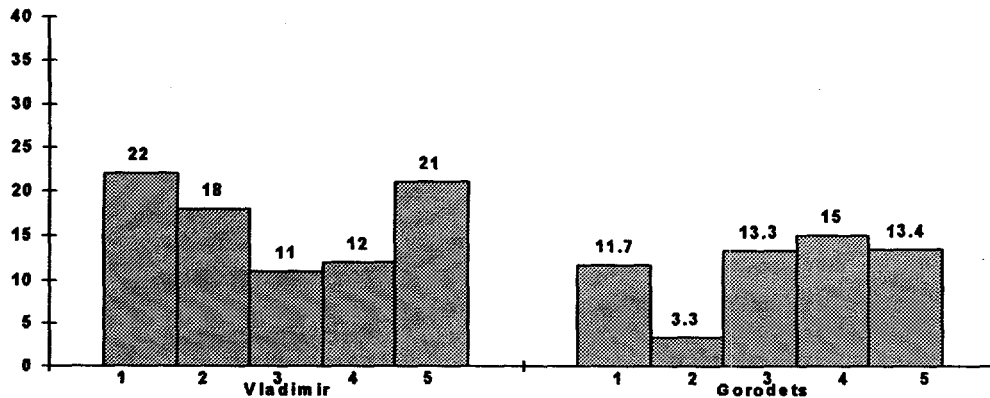
Fig. 2.8. Willingness to take a loan for the purchase of housing, by level of provision with housing (by quintiles based on per capita provision with total floor space; % of each quintile)



Note: 1 – lowest quintile, 5 – highest quintile

Source: Vladimir and Gorodets Longitudinal Household Survey, December 1996.

Fig. 2.9. Willingness to take a loan for the purchase of housing (by quintiles based on per capita income; % of each quintile)



Note: 1 – lowest quintile, 5 – highest quintile

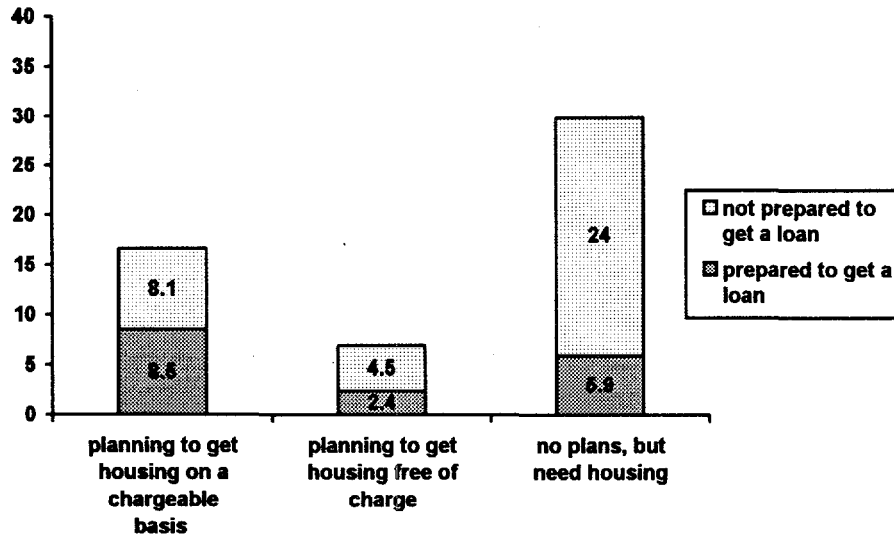
Source: Vladimir and Gorodets Longitudinal Household Survey, December 1996.

A comparison of the categories of households planning to improve their living situation and those who would like to take a long-term loan (Fig. 2.10) shows that:

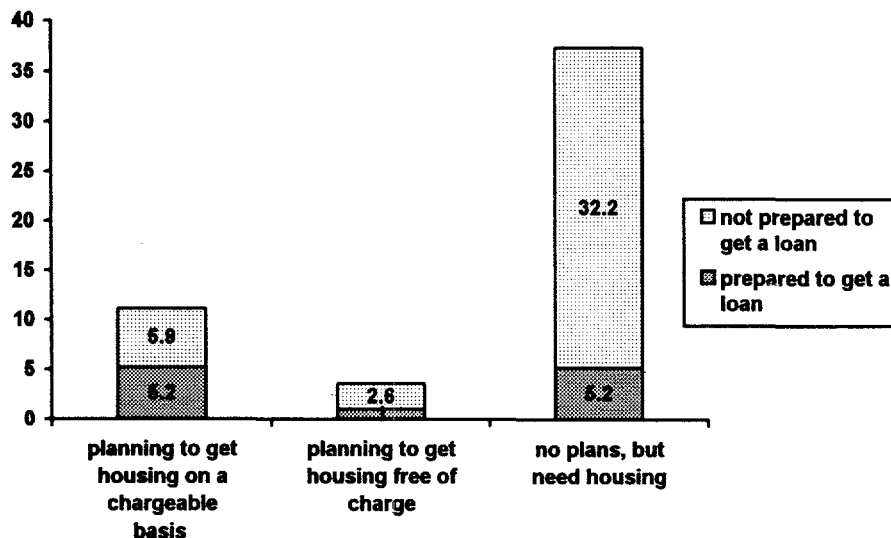
- in Vladimir and Gorodets, there are similar trends and proportions as regards loans;
- only half of the households intending to obtain housing through market methods are willing to take out a loan. The rest seem to rely on other sources;
- of those on housing waiting lists, some (about one-third) have nothing against paying to solve this problem (provided they are able to receive financing). The proportion of such households in Vladimir is 2.4%, and in Gorodets, 1%;
- it is especially important that 5.9% of the households in Vladimir and 5.2% in Gorodets, who do not see how they could improve their living conditions, would like to use a long-term loan to get access to the housing market.

These findings enable one to forecast a substantial stepping up of the effort to solve the housing problem if loans were to become available. In this case, the share of the households who plan to get better housing would rise from 23.5 to 29.4% in Vladimir and from 14.6 to 19.8% in Gorodets; the share of the households relying on their own resources would rise from 16.6 to 24.9% and from 11.1 to 17.3% respectively. As a result, the number of potential buyers of housing would increase 1.5 times and the waiting lists for free housing would become shorter. This suggests that a properly developed mechanism of mortgage lending could make a positive difference in the Russian housing market.

Fig. 2.10. Willingness to take out a long-term loan for the purchase of housing, by housing plans, %
Vladimir



Gorodets



Source: Vladimir and Gorodets Longitudinal Household Survey, December 1996.

2.3. Residential Mobility Trends

An important indicator of the development of the housing market in Russia is the degree of residential mobility, which has largely been determined by the process of privatization. This is measured by the share of households who changed their housing by moving to a place of permanent residence in other housing within the city (including external migrants).¹⁸ In the two parts of this subsection, mobility trends in Russia are presented, and the interrelation of residential mobility and the housing problem in Moscow is explored in detail. It will be seen that part of those households that change their place of residence consisted of poorer households who benefit from the housing market by selling the larger, better apartments that were their initial housing allocation and moving to apartments that are more in keeping with their incomes. This process can be seen as a step towards market-based greater efficiency in the allocation of the housing stock, and these efficiency gains benefit all market agents concerned.

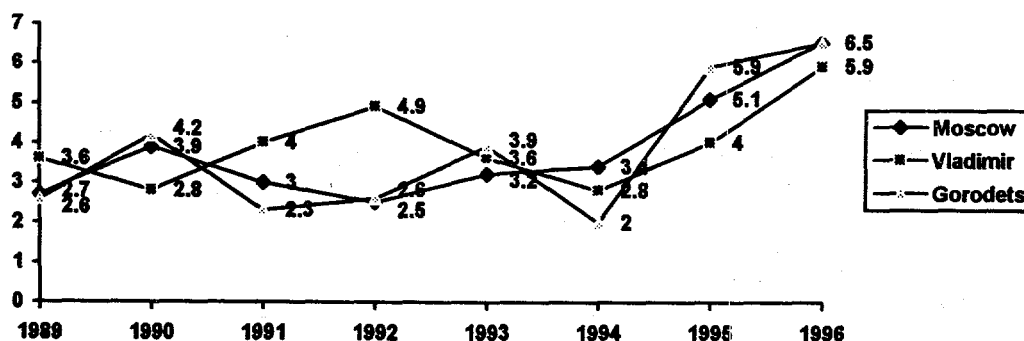
2.3.1. Household Mobility Trends in Russia

Having discussed households' plans and potential, in this section we will review the actual implementation of these plans in Moscow, Vladimir and Gorodets in the past few years and demonstrate the main trends in the housing sphere.

Fig. 2.11 shows the distribution of households by the year they moved into their current apartments (as of the end of 1996). With some reservations, this picture can be assumed to reflect actual household mobility over the past years.¹⁹

The analysis of the dynamic of residential movement shows that at the outset of reform, mobility decreased somewhat. In Moscow, the lowest recorded mobility occurred in 1992, in Vladimir and Gorodets, in 1993-1994. Then a rise began: in 1996, 5.9-6.5% of the households changed apartments. It should be noted that commission of new housing did not accelerate over that period (in Moscow the annual rate was 1.7 - 1.8%, and in most other Russian cities it was lower and tended to decline). It is easy to see that in the past two or three years, the increase in mobility stemmed mostly from the development of the secondary housing market.

Fig. 2.11. Household mobility in Russia (% of households by year of move into current unit)



Sources: The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, December 1996. Note: Mobility rate in Moscow 1996 - own estimate (minimum).

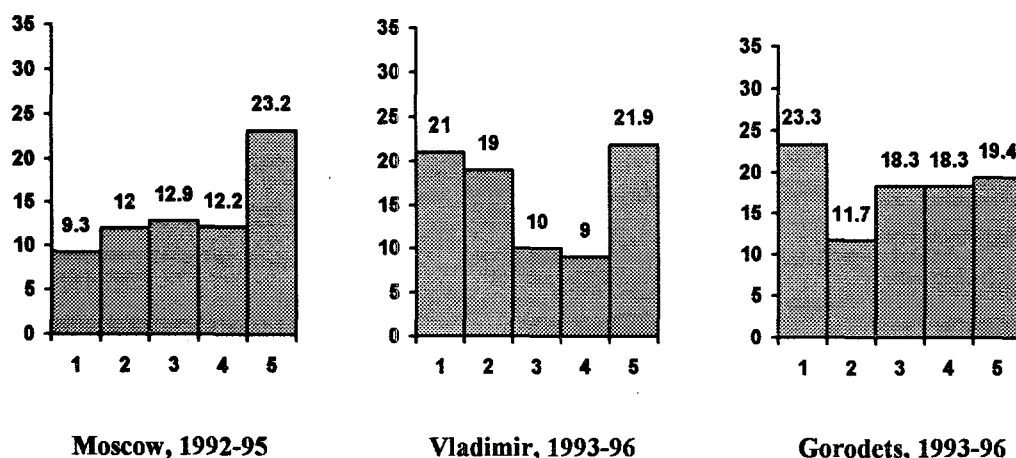
¹⁸ The analysis did not cover households who rent housing. This category (75% of whom occupied their apartments for less than one year at the time of the survey) proved inconvenient for further comparative analysis due to "hyper-mobility". According to the findings of surveys held in Moscow, the share of such households in Moscow was 0.9, 1.4, 1.8 and 1.7% in 1992, 1993, 1994 and 1995 respectively. In Vladimir and Gorodets, the proportion of the renter households was much lower.

¹⁹ One can overlook the possibility that over a short period households may have moved more than once; this is very uncommon in Russia.

As a result, in the four years of housing reform (in Moscow, 1992-1995; in Vladimir and Gorodets, 1993-1996), 14.2, 16.3 and 18.3% of the households changed their place of residence. If this had happened in accordance with the households' housing plans (see Fig. 2.3), mobility would have been lower in Gorodets, higher in Moscow, and the highest in Vladimir. The high mobility in Gorodets can probably be explained by the fact that residential movement was not always accompanied by an improvement in the households' living conditions, or it may have occurred due to migration (the findings of the survey do not contain enough data to verify these hypotheses).

Fig. 2.12 presents the proportion of households who have moved to other residences by average per capita income at the time of the survey. In Moscow during this period, household mobility in the top 20% group (fifth quintile) was substantially higher. As a result, over 1992-95, one-fourth of the wealthy households had moved to new housing. In Vladimir, the highest mobility was observed in the extreme income groups, while middle-income households mostly stayed put. In Gorodets, low mobility was observed only in the second income quintile, while in the others it was quite high.

Fig. 2.12. Household mobility (% of households who changed housing in the four years of housing reform, by quintiles based on per capita income)



Note: 1 – lowest quintile, 5 – highest quintile

Sources: The Moscow Longitudinal Household Survey, Jan., 1996; Vladimir and Gorodets Longitudinal Household Survey, Dec., 1996

Mobility (low or high) was largely determined by the progress of privatization (examined above in Section 1). At the end of 1996, the proportion of private dwellings was 42% in Moscow, 48% in Vladimir, and 66% in Gorodets. A direct link with the level of mobility is obvious enough. According to surveys conducted in these cities, owners of privatized housing exhibit a relatively low potential mobility as compared to households who rent housing from the state (Table 2.6).

Table 2.6. Household plans to move by owner/renter status, %

Occupant-owned vs. rented	Moscow, 1996	Vladimir, 1996	Gorodets, 1996
Privatized housing	11.7	21.0	13.0
Old single-family private houses	-	12.5	12.9
State & municipal	26.2	26.9	17.9
Average	20.5	23.5	14.7

Sources: The Moscow Longitudinal Household Survey, January 1996; Vladimir and Gorodets Longitudinal Household Survey, December 1996.

The analysis of the factors involved in privatization makes this easy to explain. First, in the course of privatization the housing that first passed into private ownership was the best: for the time being, most

households are probably satisfied with it; besides, they may not be able to afford new housing. Second, pensioner households constitute a large share of the owners, and they have no need to move. On the other hand, a high proportion of municipal housing is still inhabited by households for whom housing remains a pressing concern and who are ready to join the housing market.

As for the type of settlement as a factor of this process, it manifests itself most strongly in Moscow and to a lesser extent in the provincial towns.

Similar trends can be observed in the other former Soviet republics, where after privatization part of the housing remained in state or municipal ownership. Surveys conducted in 1995 in Estonia (Arpaillange, 1995a), for example, demonstrated that only a very strong desire to obtain a more suitable home motivates the dwellers who envision moving in the next five years. This hope is shared by about 15% of those surveyed; tenants display a stronger desire (about a third of the total number), while owners have a much more stable attitude (13%), especially if they own a house (only 9% of those living in individual houses would like to move).

These findings are also consistent with those of surveys conducted in Lithuania (Arpaillange, 1995b), where nearly all housing is now privately owned. Lithuanian researchers have found that residential mobility has been increasing as a consequence of the privatization program and the tremendous changes that occurred in the economy since independence: 25% of households have moved in the past five years. Over the past few years, mobility in Lithuania was 5% a year on average as compared to 3.5% in Moscow, 4% in Vladimir and 4.5% in Gorodets.

In short, privatization has made a large contribution to the establishment of the housing market, and this could not help but increase residential mobility. Housing privatization has also made better headway in small towns, which may be one of the reasons for its success in the Baltic states, countries in which a relatively higher proportion of the population lives in smaller population centers.

2.3.2. Mobility Trends Versus the Housing Problem in Moscow

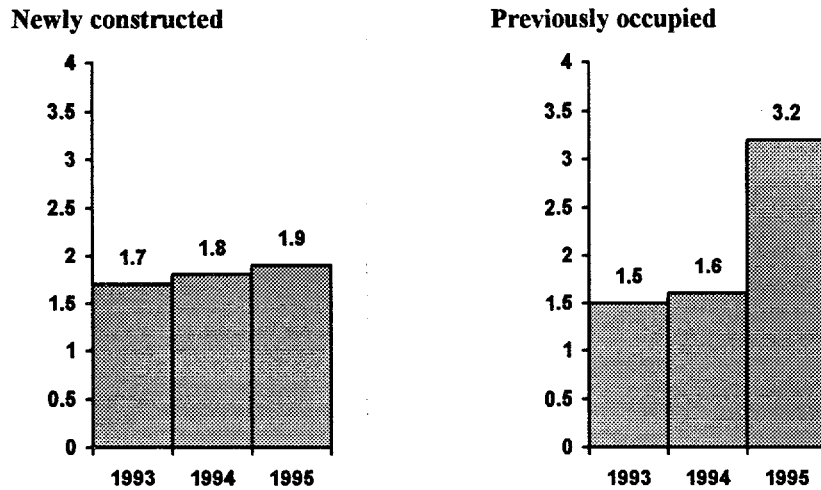
The findings of the Moscow surveys allow for a more detailed examination of the housing problem in Moscow in the years 1993-1995.²⁰ In these three years, 11.6% of households moved, with 10.4% of them Muscovites and 1.2% persons new to Moscow.

In 1993-1994, roughly equal shares of households moved into newly constructed and into secondary market housing (Fig. 2.13), while in 1995 the place of the latter category expanded (3.2% as against 1.9%). As a result, 5.4% of the households moved into new apartments, and 6.2% moved into secondary market apartments.

The distribution by the means of obtaining housing was as follows: 4.2% exchanged their housing; 4% received free housing through the waiting list system or were moved from buildings slated for demolition; 3.4% bought apartments, including cooperatives. Over the three-year period, the ratio of these means remained basically unchanged. Distinctions in the purchase of primary and secondary market housing are illustrated by Fig. 2.14.

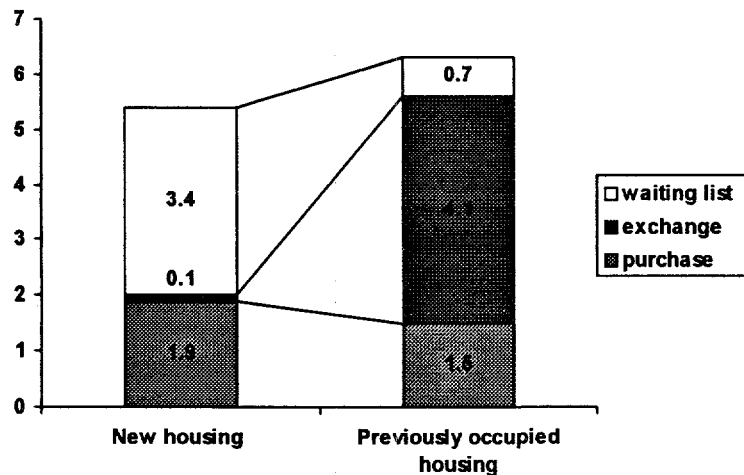
²⁰ An analysis of the mobility of Muscovites was also carried out by the Urban Institute (Lee, 1996), which compared the data of four annual surveys undertaken in 1992-1996 and revealed similar trends.

Fig. 2.13. Ratio of moves to new and previously occupied units in Moscow (% of mover households, by year)



Source: The Moscow Longitudinal Household Survey, January 1996.

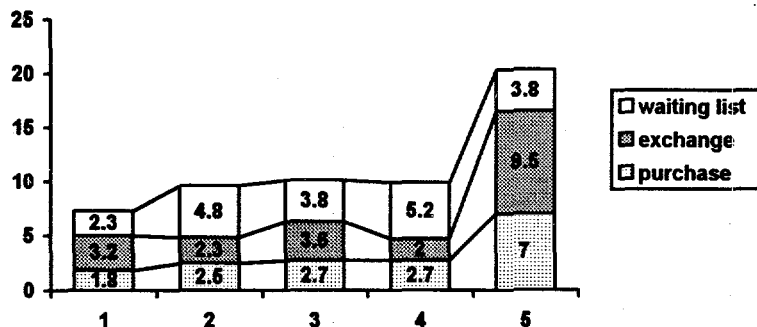
Fig. 2.14. Methods of obtaining housing in the primary and secondary housing markets in Moscow (% of mover households in 1993-1995.)



Source: The Moscow Longitudinal Household Survey, January 1996

The means of solving the housing problem by income group are presented in Fig. 2.15. The poor tenants displayed low mobility. It is noteworthy that among them, relatively few households (2.3% as against an average of 4%) received housing through the waiting list system. Clearly the poorest people on the waiting list do not have preferential access to free housing, which is indicative of a poor targeting program. A large share of middle-income families demonstrated a very moderate capacity for improving their housing conditions by using both market and non-market methods in relatively equal measure. And only the top income group was marked by a large volume of apartment purchases and exchanges. It is also noteworthy that 3.8% of the households in the top income category managed to get free housing through the waiting list.

Fig. 2.15. Search methods in Moscow (by quintiles based on per capita income; % of mover households in 1993 – 1995)



Note: 1 – lowest quintile, 5 – highest quintile

Source: The Moscow Longitudinal Household Survey, January 1996

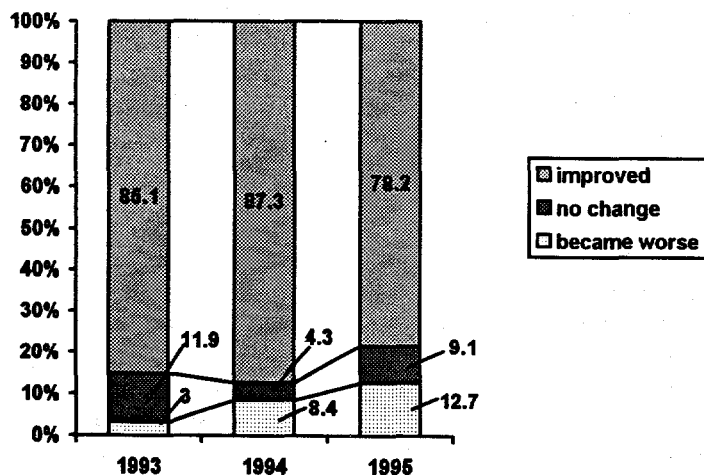
On the whole, in Moscow the ratio of non-market to market search methods (including exchange) was 36.2 to 63.8%, that is, about two-thirds of the volume of residential movement were determined by the advancement of the housing market. A comparison of this ratio with households' non-market vs. market preferences (47.6% to 52.4%) shows that the hopes of many for free housing are unrealistic; the market is a more effective provider.

2.3.3. Changes in the housing conditions produced by residential movement

As was shown above, at present the orientation of households' potential is towards improving their housing conditions; very few families said they would agree to move to worse housing (see Fig. 2.2). The evaluation of households who changed their place of residence in 1993-1995 shows that in most cases (82.7%) their housing conditions improved, and in 8.5% of the cases they remained unchanged. However, 8.9% of the households said that their housing situation became worse.

The actual situation depended on the year of the move (Fig. 2.16). In 1993, when the secondary market still did not have a large place in the overall housing market, only 3% of the households noted a change for the worse, while in 1994 this figure rose to 8.5%, and in 1995, to 12.7%. That is, instances of exchange of apartments for inferior ones became more common. As noted above, this is indication of a reallocation of the housing stock from its initially inefficient state.

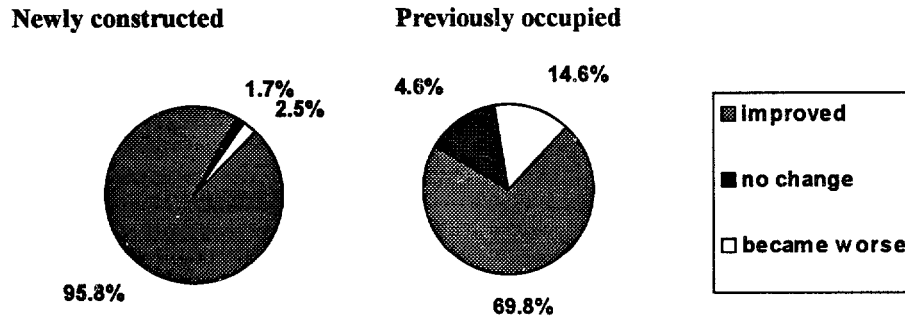
Fig. 2.16. Change in mover households' living conditions in Moscow by year of the households in each year).



Source: The Moscow Longitudinal Household Survey, January 1996

As Fig. 2.17 below shows, when moving into a new building, practically all households (95.8%) managed to improve their housing conditions, while when moving into secondary market housing, only 69.8% did so.

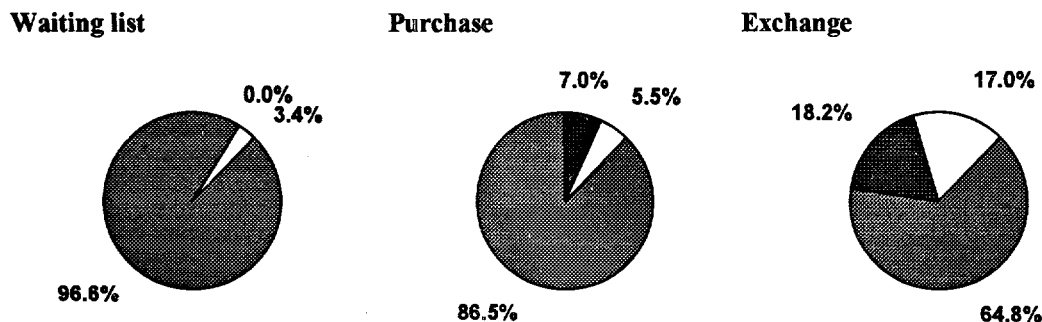
Fig. 2.17. Change of housing conditions when moving into new and previously occupied housing (% of mover households in 1993-1995)



Source: The Moscow Longitudinal Household Survey, January 1996

As for the methods of obtaining housing (Fig. 2.18), its free allocation through the waiting list or purchase was generally accompanied by an improvement in the living conditions. In the case of apartment exchanges, however, 17% of the households reported moving into inferior apartments.

Fig. 2.18. Change in mover household living conditions in Moscow by methods of obtaining housing (% of mover households in 1993-1995; same legend as Fig. 2.17.)



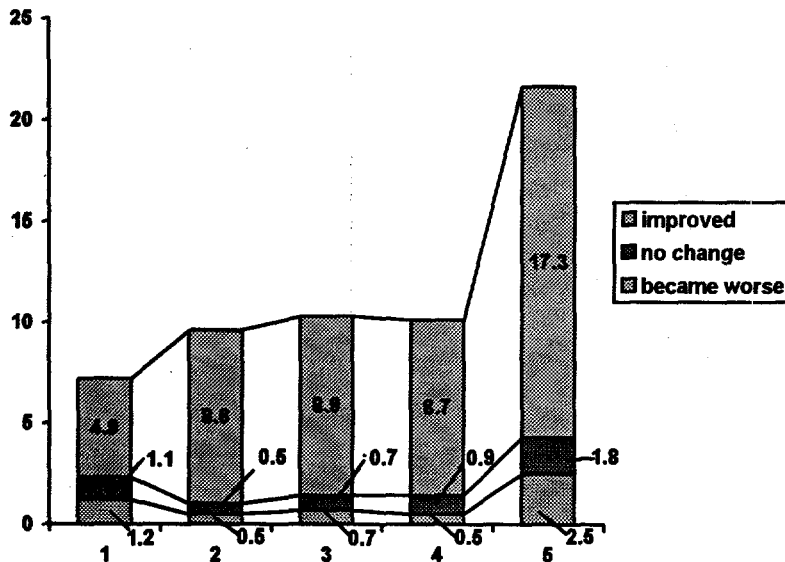
Source: The Moscow Longitudinal Household Survey, January 1996.

This can be explained, in part, by the social composition of the mover households. Those households who resort to housing exchanges (and, to a lesser degree, purchases) include quite a few external migrants among whom 28% think that their new apartments are worse than their old ones (among the Muscovites, this proportion is only 7%). That is, these are households that have moved from another city where they gave up an apartment that was better than the one they received in Moscow, presumably in the belief that there were other benefits to be had from moving to the capital.

However, considering that in 1993-1995 the share of non-Muscovites in the overall number of households changing apartments decreased somewhat and the amount of residential movement leading to worse living conditions significantly rose, the analysis cannot be confined to the dissatisfaction of newcomers to Moscow with their apartments in Moscow.

The analysis of this trend by income level (Fig. 2.19) shows that the decision to move into an inferior apartment is much more often made by poor households, who are forced to part with their spacious apartments under present financial constraints.

Fig. 2.19. Change in mover households' living conditions in Moscow (by quintiles based on per capita income.)



Note: 1 – lowest quintile, 5 – highest quintile

Source: The Moscow Longitudinal Household Survey, January 1996.

On the whole, the processes of receipt, sale and purchase, and exchange of housing have evolved in one direction: households mainly moved to better apartments or managed to get apartments of their own and stopped sharing with relatives. On the other hand, the opposite trend of households who were forced to move into inferior housing, also consolidated. It is especially noticeable when housing is exchanged in the secondary market.

CONCLUSIONS AND POLICY ISSUES

This paper has presented a picture of the recent situation in the emerging housing market in Russia. The process of mass privatization of housing, which began in earnest in Russia in 1992, has served as the catalyst to the development of this market. At the same time, as has been seen through the analysis of survey data, the peak of privatization appears to have passed or to be stalled due to some of the conditions that now prevail in the housing situation in Russia. The introduction of policies directed at resolving these problems could further the development of the housing market and the lead to the provision of a wider range of housing market services for which there is at present an unmet demand.

An important shift in household attitudes to the housing market is apparent in the survey data. Recent data indicate a greater willingness to turn to market methods to deal with the housing problem as opposed to the non-market methods that prevailed in Soviet times. This is especially true of provincial towns and to a lesser degree of Moscow. Market methods are clearly the preferred means in households' plans to improve their living conditions. Many households would like to take out long-term loans for the purchase of housing and it is increasingly clear to people that the practice of using waiting lists to obtain free housing, a vestige from the Soviet system of allocation of housing, has not proved effective.

Below follow some broad policy proposals that address the distortions in the development of the housing market that have been examined in this paper.

- Support the transition to predominantly market methods of dealing with the housing problem;
- Abandon the allocation of free newly constructed housing;
- Introduce a category of "social" housing (low-quality dwellings, which in Moscow could include Khrushchev-era buildings, and in small towns, the old low-rise stock without modern conveniences) to address the problem of housing allocation to the poor (possibly free of charge);
- Establish a low rent for the households living in the "social" housing;
- Formulate a housing policy to assist the households prepared to pay (in full or in part) to obtain better housing;
- Coordinate this policy with the concept of housing and utilities reform (targeted at the households ready to join the housing market);
- Facilitate the development of the appropriate financial instruments (e.g., home loans) to increase the availability of funds.

The Russian housing sector is important to the life of the country not only because it represents an important area of future growth for the recovering economy, but because it directly touches upon the lives of all the residents of Russia. Good practices and policies are needed to ensure that the development of the housing market and related areas of the economy takes place sooner rather than later.

ANNEX: SOCIAL SURVEY BACKGROUND

To study the issues raised in this work, we used the findings of surveys conducted in Russian cities in 1992-1996. They were all conducted by a group of sociologists headed by the author of this paper who works at the Institute of Economic Forecasting, Russian Academy of Sciences.

Uniform sampling and survey techniques were used. In all cities, the sample was chosen from the existing housing units (i.e., units were selected and their occupants were interviewed). In all cases, the sample units were randomly drawn. For each household, one adult member was interviewed. The questionnaires were developed by the staff of the Institute of Economic Forecasting, Russian Academy of Sciences, Moscow and the Urban Institute, Washington. The findings of sociological surveys based on Russian data and presented below were obtained by primary data processing of the relevant studies.

- ***USAID-World Bank Survey in Seven Russian Cities*** (1993-1994) was conducted as part of the Housing Sector Reform Project (World Bank, 1994; Struyk, 1994). A research team of the Institute of Economic Forecasting, Russian Academy of Sciences (head, Oleg S. Pchelintsev) was involved in this work. In December, 1993-January, 1994, a group of sociologists headed by the author of this study conducted household surveys in Moscow, Nizhny Novgorod, and Barnaul, in which 2,150, 1,002 and 806 households respectively were polled. The Moscow survey used the sample developed for the Moscow Longitudinal Household Survey, 1993, second wave (see below). The main purpose of the surveys was to obtain information about the actual housing situation in the cities and to assess the structure of demand for housing. The main findings are presented in Guzanova et al., 1994a; Guzanova et al., 1994b; Guzanova et al., 1994c; Guzanova, 1994; Pchelintsev, 1994; Abankina and Zhev, 1994. The technique for the study of the households' needs, plans and preferences as regards housing, as well as questions about the choice of the so-called search methods, were reproduced in many household surveys conducted in 1994-1996 in Russia.
- ***The Moscow Longitudinal Household Survey, 1992-1996 (MLHS)*** was conducted for the Urban Institute, Washington. The objective of the survey was to obtain annual data over a period of four years to track the changes in the housing sector in Moscow and particularly how they affect individual households. The first wave of the survey was completed in December 1992; the second wave, in December 1993; the third wave, in December 1994; and the fourth wave, in January 1996. A total of 2,002, 2,150, 2,247 and 2,220 households were interviewed, respectively. The primary sample was drawn randomly from a listing of residential telephone numbers provided by the Moscow Telephone Network. Units without telephones in new residential suburbs were added to the sample. The same households were polled each year, with the sample complemented by new households that moved to new dwellings over the year in question (proportionately to the newly built housing). Ninety-five to ninety-seven percent of all units in Moscow were included in the population from which the sample was drawn. The Moscow Longitudinal Household Survey (second wave, 1993) and the USAID-World Bank Household Survey, 1993, in Moscow were conducted within the framework of the same field study. This work uses mainly the third and fourth waves of MLHS (1994 and 1996) when examining the factors and social consequences of privatization. When analyzing the development of the housing market, the Section 2 uses waves two and four (1993 and 1996).
- ***The Vladimir and Gorodets Longitudinal Household Survey on Housing Allowances*** was conducted for the Urban Institute, Washington, three times: in October 1994, November 1995 and December, 1996. Using random samples, 300 households in Vladimir and 500 households in Gorodets were polled annually. The samples differed each year but were constructed in a uniform fashion²¹. The September, 1994 study, which dealt with housing allowances, provided a framework for an analysis of the need and demand for housing under the technique developed for the USAID-

²¹ To draw the samples for Vladimir, we also used statistics obtained for EHDP Vladimir Household Survey, which was conducted as part of the preparations for the World Bank Enterprise Housing Divestiture Project.

World Bank Survey in Seven Russian Cities (1994). Similar studies were conducted in 1995 and 1996.

- ***EHDP Social Household Survey*** was conducted in multifamily buildings in Vladimir and Volkhov and in demonstration buildings in Ryazan as part of the preparation for the World Bank Enterprise Housing Divestiture Project (Guzanova and Diachenko, 1995; Guzanova and Diachenko, 1996). A total of 508, 300 and 455 households respectively were polled using random samples in the autumn of 1995. The goal of these surveys was to determine housing conditions, as well as the households' needs, perceptions and opinions of housing maintenance and potential improvements of the energy efficiency of their buildings.

For comparative analysis, we used the findings of a survey conducted in Yaroslavl, a large cultural and industrial center, where in 1993 tenants of 1,400 apartments were interviewed. The sample included typical apartments in each of the city districts. The following paper is devoted to this problem:

- Susan G. Lehmann and Blair A. Ruble. From Soviet to "European" Yaroslavl: Changing Neighborhood Preference in a Post-Soviet Russian City. Columbia University, New York, 1994.

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